

November 6, 2008

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John
12/11/08

November 6, 2008

EXHIBITS

<u>EXHIBIT NO. (ITEM NO.)</u>	<u>TITLE (TESTIMONY OF)</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Board Exhibit	Hearing Officer Report	15	15
Exhibit A (Item 1)	Affidavit of notice (William T. Watson)	15	15
Exhibit B (Item 2)	Affidavit of notice (William T. Watson)	15	15
Exhibit 1 (Items 1 & 2)	Structure contour map, base Lewis sand, Coal Fire Creek Field (David Higginbotham)	24	24
Exhibit 2 (Items 1 & 2)	Micro log, Cunningham 16-12 No. 2, Coal Fire Creek Field (David Higginbotham)	24	24
Exhibit 3 (Items 1 & 2)	Stratigraphic cross section, carter sand interval, Kelly 15-16 No. 1 Well, Coal Fire Creek Field (David Higginbotham)	24	24
Exhibit 4 (Items 1 & 2)	Well location plat of re-entry for the Cunningham 16-12 No. 2, Coal Fire Creek Field (David Higginbotham)	24	24
Exhibit 5 (Items 1 & 2)	Structure map, top Carter sand, Coal Fire Creek Field (David Higginbotham)	24	24

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Exhibit 6 (Items 1 & 2)	Isopach map, Upper carter sand porosity, Coal Fire Creek Field (David Higginbotham)	24	24
Exhibit 7 (Items 1 & 2)	Isopach map, Lower Carter sand porosity, Coal Fire Creek Field (David Higginbotham)	24	24
Exhibit 8 (Items 1 & 2)	Structural cross section A-A', Coal Fire Creek Field (David Higginbotham)	24	24
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Exhibit 11 (Items 1 & 2)	Amended well location plat, Cunningham 16-12 No. 2, Coal Fire Creek Field (David Higginbotham)	25	25
Exhibit A (Item 16)	Affidavit of notice (William T. Watson)	31	31
Exhibit B (Item 16)	Amended affidavit of testimony (Jerry Elgin)	34	35

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Exhibit 1 (Item 16)	Well location plat, Cedar Creek Land & Timber 9-12 Little Cedar Creek Field (Jerry Elgin)	34	35
Exhibit 2 (Item 16)	Bottom hole directional survey, Cedar Creek Land & Timber 9-12, Little Cedar Creek Field (Jerry Elgin)	34	35
Exhibit A (Item 21)	Affidavit of notice (William T. Watson)	41	41
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Exhibit 3 (Item 21)	Surface casing test chart, Belcher 33-06-566 well, Brookwood Coal Degas. Field (Eric Hutchens)	44	44
Exhibit 4 (Item 21)	Well diagram, Belcher 33-06-556, Brookwood Coal Degas. Field (Eric Hutchens)	45	45
Exhibit 1 (Item 23)	7/14/08 letter to Board (Bennett Anderson)	60	60

November 6, 2008

EXHIBITS

<u>EXHIBIT NO.</u> <u>(ITEM NO.)</u>	<u>TITLE</u> <u>(TESTIMONY OF)</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Exhibit 2 (Item 23)	7/9/08 letter to Robert N. Martin, Daybreak Oil and Gas, Inc. (Richard N. Raymond)	60	60

EXHIBITS
(Incorporated by Reference)

<u>DESCRIPTION</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Record related to Order No. 88-196	25	25

November 6, 2008

STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

November 6, 2008

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 6th day of November, 2008.

BEFORE

Mr. James H. GriggsChairman
Mr. Charles E. Pearson Member
Mrs. Rebecca Wright Pritchett..... Member

STAFF

Mr. Berry H. (Nick) Tew, Jr. Secretary and Supervisor
Mr. S. Marvin Rogers Attorney
Dr. David E. Bolin Deputy Director
Mr. Jay H. Masingill Assistant Supervisor
Mr. Douglas Hall..... Geologist
Mr. Tom Sexton Geologist
Mr. Butch Gregory Engineer
Mr. Randy Oglesby Geologist

APPEARANCES

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	NAME	REPRESENTING
1.	Tom Watson Tuscaloosa, AL	Land and Natural Resource Development, Inc./ Midroc Operating Company/ Black Warrior Methane Corp.
2.	Gordon Powell Mobile, AL	---
3.	Bennett Anderson Orem, Utah	Daybreak Oil & Gas, Inc.
4.	Bobby Greer Columbia, MS	Daybreak Oil & Gas, Inc.
5.	Eric Hutchens McCalla, AL	Black Warrior Methane Corp.
6.	David Higginbotham Tuscaloosa, AL	Land and Natural Resource Development, Inc.
7.	Adam Lang Tuscaloosa, AL	Jabsco Oil
8.	Bob Land Tuscaloosa, AL	Cedarhill Operating Co.

November 6, 2008

1 (The hearing was convened at 10:12 a.m. on
2 Thursday, November 6, 2008, at Tuscaloosa, Alabama.)
3
4

5 CHAIRMAN GRIGGS: Let the record reflect that the State Oil and Gas Board is now in
6 session. The record should also reflect that Mr. Pearson and Mrs. Pritchett is in attendance and
7 so we have a quorum. Dr. Tew, have the items for the November 4 and November 6, 2008,
8 meeting been properly noticed?

9 DR. TEW: Members of the Board and Mr. Chairman, the items for the November 4 and
10 November 6, 2008, meeting have been properly noticed.
11

12 AGENDA
13 STATE OIL AND GAS BOARD OF ALABAMA
14 BOARD MEETING
15 NOVEMBER 4 & 6, 2008
16

17 The State Oil and Gas Board of Alabama will hold its regular hearing at
18 10:00 a.m. on Tuesday, November 4, 2008, and Thursday, November 6,
19 2008, in the Board Room of the State Oil and Gas Board, Walter B. Jones
20 Hall, University of Alabama Campus, 420 Hackberry Lane, Tuscaloosa,
21 Alabama, to consider the following items:
22

23 1. DOCKET NO. 4-14-08-7A

24 Continued amended petition by LAND AND NATURAL RESOURCE
25 DEVELOPMENT, INC., an Alabama corporation, requesting the State Oil
26 and Gas Board to enter an order approving an exception to Rule 3(b) of
27 the Special Field Rules for the Coal Fire Creek Field, Pickens County,
28 Alabama, for the exceptional location of the Cunningham 16-12 #2 Well,
29 Permit No. 5881. Petitioner proposes to re-enter and complete said well on
30 a 320-acre unit consisting of the West Half of Section 16, Township 18
31 South, Range 14 West, Pickens County, Alabama, at a location 2,300 feet
32 from the South line and 330 feet from the West line of said Section 16.
33 Said Rule 3(b) requires that wells drilled in said Field be located at least
34 660 feet from every exterior boundary of the drilling unit, and the
35 proposed location of the referenced well is only 330 feet from the West
36 line of the 320-acre drilling unit for said well.

1 In the proposed re-entry, Petitioner desires to test the Benton Sand Gas
2 Pool as defined in the Special Field Rules for the Coal Fire Creek Field
3 and also test the Tuscumbia and Millerella Sands. Excluded from the re-
4 entry tests are the Carter, Lewis and Fayette Sand Gas Pools. There are
5 two producing wells in the said West Half of Section 16, one producing
6 from the Lewis Sand Gas Pool and another producing from the Fayette
7 Sand Gas Pool with one well in the Carter Sand Gas pool that is no longer
8 producing.
9

10 2. DOCKET NO. 8-26-08-7B

11 Continued amended petition by LAND AND NATURAL RESOURCE
12 DEVELOPMENT, INC., an Alabama corporation, requesting the State Oil
13 and Gas Board to enter an order rescinding Board Orders 97-154 and 98-
14 85 that force pooled, with imposition of the risk compensation fee, all
15 tracts and interests in the Pennsylvanian and Mississippian age strata in a
16 320-acre unit consisting of the West Half of Section 16, Township 18
17 South, Range 14 West, Pickens County, Alabama, in the Coal Fire Creek
18 Field. The Board in Order No. 97-154, issued on December 19, 1997,
19 force pooled interests for the re-entry of the Jabsco Oil LLC
20 Carpenter/Shirley 16-3 #1 Well, Permit No. 4637-A. The Board in Order
21 No. 98-85, issued on July 24, 1998, force pooled interests for the drilling
22 of the Gulf States Paper 16-6 #1 Well, Permit No. 11459. Petitioner seeks
23 to have said Orders rescinded in order to allow Petitioner to re-enter the
24 Cunningham 16-12 # 2 Well, Permit No. 5881 and attempt to complete a
25 well in either the Tuscumbia or Millerella Sands.
26

27 3. DOCKET NO. 9-30-08-3

28 Continued petition by SAGA PETROLEUM LIMITED LIABILITY
29 COMPANY OF COLORADO, a foreign limited liability company,
30 requesting the State Oil and Gas Board to enter an order amending Rule 2
31 of the Special Field Rules for the Oak Grove Coal Degasification Field,
32 Tuscaloosa and Jefferson Counties, Alabama, in order to delete the Southeast
33 Quarter of the Southeast Quarter of Section 18, Township 19 South, Range 8
34 West, Tuscaloosa County, Alabama, from the field limits of said Field.
35

36 4. DOCKET NO. 9-30-08-4

37 Continued petition by SAGA PETROLEUM LIMITED LIABILITY
38 COMPANY OF COLORADO, a foreign limited liability company,
39 requesting the State Oil and Gas Board to enter an order amending Rule 2
40 of the Special Field Rules for the Blue Creek Coal Degasification Field,
41 Tuscaloosa and Fayette Counties, Alabama, in order to add the Southeast

1 Quarter of the Southeast Quarter of Section 18, Township 19 South, Range 8
2 West, Tuscaloosa County, Alabama to the field limits of said Field.
3

4 5. DOCKET NO. 9-30-08-6

5 Continued petition by SHELL OFFSHORE INC. ("Shell") a corporation
6 authorized to do and doing business in the State of Alabama. Shell is
7 requesting the State Oil and Gas Board to approve modification of Shell's
8 Production, Allocation and Reporting methodology for Shell's Fairway
9 Field, Mobile County, Alabama to be consistent with the Department of
10 Conservation's agreed upon measurement, allocation and reporting
11 methodology. The allocation procedure balances the production volumes
12 from the Fairway Field (State Leases 531, 532) with the volumes of
13 products sold or consumed within the Yellowhammer Plant and Fairway
14 Field. The jurisdiction and authority of the Oil and Gas Board is provided
15 in Section 9-17-1, et seq., Code of Alabama (1975) as amended.
16

17 6. DOCKET NO. 9-30-08-7

18 Continued petition by CARRIZO OIL & GAS, INC., a foreign corporation
19 authorized to do and doing business in the State of Alabama, requesting
20 the State Oil and Gas Board of Alabama to enter an Order approving a
21 160-acre drilling unit for the Black Stone-Indigo 10-10 No. 1 Well to
22 consist of the Southwest Quarter of the Northeast Quarter, the Southeast
23 Quarter of the Northwest Quarter, the Northeast Quarter of the Southwest
24 Quarter and the Northwest Quarter of the Southeast Quarter of Section 10,
25 Township 3 North, Range 6 East, Escambia County, Alabama. The
26 Northwest Quarter of the Southeast Quarter of said Section 10 and the
27 surface and bottom hole location of the proposed Well lie in the
28 Chitterling Creek Field and the proposed drilling unit is an exception to
29 Rule 3 (a) of the Special Field Rules for said Field which requires that
30 Wells in said field be located on units consisting of a governmental quarter
31 section containing approximately 160 contiguous acres.
32

33 7. DOCKET NO. 11-4-08-1

34 Petition by WINN EXPLORATION CO., INC., a foreign corporation
35 authorized to do and doing business in the State of Alabama, requesting
36 the State Oil and Gas Board of Alabama to enter an order establishing
37 permanent allowables for the Winn Exploration Co., Inc. -Craft - Noble
38 35-1 No. 1 Well, Permit No. 15396, in the Baileys Creek Field, Monroe
39 County, Alabama in accordance with Rule 7 of the Special Field Rules for
40 said Field.

1 8. DOCKET NO. 11-4-08-2

2 Petition by SPOONER PETROLEUM COMPANY, a foreign corporation
3 authorized to do and doing business in the State of Alabama, requesting
4 the State Oil and Gas Board of Alabama to enter an Order amending Rule
5 2 of the Special Field Rules for the East Lambeth Church Field, Escambia
6 County, Alabama, to add and define the Lower Moye Sand Oil Pool for
7 said Field.
8

9 Petitioner requests that the Lower Moye Sand Oil Pool in the East Lambeth
10 Church Field be defined as that interval of the Lower Moye Sand productive
11 of hydrocarbons between the interval of 6575 feet and 6581 feet, measured
12 depth, (-6331 feet and -6337 feet, subsea measured depth) as indicated on
13 the High Definition Induction Log for the Powell-Rabon 3-11 No. 1 Well,
14 Permit No. 15711-AB, and all zones in communication therewith and all
15 productive extensions thereof. Said pool constitutes a separate and distinct
16 oil producing pool in said Field, separate and distinct from all other
17 producing pools therein.
18

19 9. DOCKET NO. 11-4-08-3

20 Petition by SAGA PETROLEUM LIMITED LIABILITY COMPANY OF
21 COLORADO, a foreign limited liability company, requesting the State Oil
22 and Gas Board to enter an order approving the exceptional bottom hole
23 location of the McShan 2-1-1 Well, Permit No. 15796, as an exception to
24 Rule 400-1-2-.02(2)(c) of the State Oil and Gas Board of Alabama
25 Administrative Code. Said well was drilled on a 320-acre wildcat drilling
26 unit consisting of the East Half of Section 2, Township 19 South, Range
27 16 West, Pickens County, Alabama, at a surface location 667 feet from the
28 North line and 675 feet from the East line of said 320-acre wildcat drilling
29 unit, but said well drifted such that the bottom hole location is 514 feet
30 from the North line and 694 feet from the East line of said 320-acre
31 wildcat drilling unit.

32 Rule 400-1-2-.02(2)(c) requires that wells be drilled at least 660 feet from
33 every exterior boundary of the drilling unit, but the bottom hole location
34 of the referenced well, being 514 feet from the North line of said 320-acre
35 unit, is an exception to said Rule.
36

37 10. DOCKET NO. 11-4-08-4

38 Petition by HUGHES EASTERN CORPORATION, a foreign corporation
39 authorized to do and doing business in the State of Alabama, requesting
40 the State Oil and Gas Board to enter an order approving an exceptional
41 location for the proposed Allman 17-4 #2 Well as an exception to Rule

1 3(b) of the Special Field Rules for the Bluff Gas Field, Fayette and Lamar
 2 Counties, Alabama. Petitioner proposes to drill said well to test the Gilmer
 3 Sand Gas Pool on a 320-acre unit consisting of the North Half of Section
 4 17, Township 14 South, Range 13 West, Fayette County, Alabama, at a
 5 location 810 feet from the West line and 330 feet from the North line of
 6 said 320-acre drilling unit. Said Rule 3(b) requires that wells drilled in
 7 said Field be located at least 660 feet from every exterior boundary of the
 8 drilling unit, and the proposed location will be an exception to said Rule.
 9

10 11. DOCKET NO. 11-4-08-5

11 Petition by BLACK WARRIOR METHANE CORP., an Alabama
 12 corporation, requesting the State Oil and Gas Board to enter an order re-
 13 assuming jurisdiction and authority over the following described wells in the
 14 Brookwood Coal Degasification Field, Tuscaloosa County, Alabama:
 15

<u>Well Name</u>	<u>Permit No.</u>	<u>Location</u>
Wesley West #3-2-2	6742-CG	S3-T20S-R8W
Wesley West #3-3-3	8304-CG	S3-T20S-R8W
Wesley West #3-4-4	9963-CG	S3-T20S-R8W.

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22 At the request of Petitioner, the Board entered Order No. 94-95 on June 24,
 23 1994, relinquishing and terminating jurisdiction and authority over certain
 24 wells in the Brookwood Coal Degasification Field including the above-
 25 referenced wells based upon evidence that none of the wells was producing
 26 gas at the time nor were they expected to produce in the future. Said Order
 27 required Petitioner to plug and abandon these wells when they were no
 28 longer useful for mine safety or utility reasons. Due to the installation of a
 29 Nitrogen Recovery Unit that will take non-pipeline quality gas and recover
 30 non-combustible gas from the full well stream thus rendering otherwise non-
 31 marketable gas marketable, Petitioner is now requesting the Board to re-
 32 assume jurisdiction and authority over the above-described wells.
 33

34 12. DOCKET NO. 11-4-08-6

35 Petition by ESCAMBIA OPERATING CO., LLC, (Escambia) a foreign
 36 limited liability company, authorized to do and doing business in the State
 37 of Alabama, requesting the State Oil and Gas Board to review Escambia's
 38 amount of surety as ordered by the Board in Order No. 2007-152 issued on
 39 November 9, 2007, for operating numerous wells, two plants and
 40 associated production facilities and gathering lines located in the
 41 following fields: Big Escambia Creek; Flomaton; Fanny Church; West

1 Appleton; Northwest Smiths Church; and South Burnt Corn Creek, all
2 located in Escambia County; and the North Choctaw Ridge Field located
3 in Choctaw County. In said Order No. 2007-152, the Board ordered
4 Escambia's blanket bond to be in the amount of \$2.5 million.
5

6 13. DOCKET NO. 11-4-08-7

7 Petition by HIGHMOUNT BLACK WARRIOR BASIN LLC, a foreign
8 limited liability company, authorized to do and doing business in the State
9 of Alabama, requesting the State Oil and Gas Board to enter an order
10 reforming the unit for the Jolen 04-01-1160 Well, Permit No. 15682-C,
11 from an 80-acre unit consisting of the East Half of the Northeast Quarter
12 of Section 4, Township 19 South, Range 10 West, Tuscaloosa County,
13 Alabama, in the Blue Creek Coal Degasification Field to a 40-acre unit
14 consisting of the Northeast Quarter of the Northeast Quarter of said
15 Section 4.
16

17 Although Petitioner requests the Board to eliminate certain lands from the
18 present spacing unit, Petitioner proposes to drill another coalbed methane
19 well in the lands proposed to be eliminated.
20

21 This petition is filed as a companion to a petition bearing Docket No. 11-
22 4-08-8 requesting approval of the exceptional location for the referenced
23 well on the proposed reformed 40-acre unit.
24

25 14. DOCKET NO. 11-4-08-8

26 Petition by HIGHMOUNT BLACK WARRIOR BASIN LLC, a foreign
27 limited liability company, authorized to do and doing business in the State
28 of Alabama, requesting the State Oil and Gas Board to enter an order
29 approving the exceptional location of the Jolen 04-01-1160 Well, Permit
30 No. 15682-C, on a proposed reformed 40-acre drilling unit consisting of the
31 Northeast Quarter of the Northeast Quarter of Section 4, Township 19 South,
32 Range 10 West, Tuscaloosa County, Alabama, in the Blue Creek Coal
33 Degasification Field, as an exception to Rule 4B of the Special Field Rules
34 for said Field. The location of the referenced well on said proposed
35 reformed 40-acre drilling unit is 1,217 feet from the North line and 454
36 feet from the East line of said proposed reformed 40-acre drilling unit,
37 making the location of said well 100 feet from the South line of the 40-
38 acre drilling unit. Said Rule 4B requires that wells be located at least 150
39 feet from every exterior boundary of the drilling unit, and the location of
40 said well on the proposed reformed 40-acre unit is an exception to said
41 Rule.

1 This petition is filed as a companion to a petition bearing Docket No. 11-
2 4-08-7 requesting reformation of the 80-acre unit for the referenced well
3 to a 40-acre unit.
4

5 15. DOCKET NO. 11-4-08-9

6 Petition by ROBINSON'S BEND OPERATING II, LLC, a foreign
7 corporation, authorized to do and doing business in the State of Alabama,
8 requesting the State Oil and Gas Board to enter an order reforming the unit
9 for the Smalley #16-1-347 Well, Permit No. 9069-C, from an 80-acre unit
10 consisting of the North Half of the Northeast Quarter of Section 16,
11 Township 21 South, Range 11 West, Tuscaloosa County, Alabama, in the
12 Robinson's Bend Coal Degasification Field to a 40-acre unit consisting of
13 the Northeast Quarter of the Northeast Quarter of said Section 16.
14

15 Although Petitioner requests the Board to eliminate certain lands from the
16 present spacing unit, Petitioner proposes to drill another coalbed methane
17 well in the lands proposed to be eliminated.
18

19 16. DOCKET NO. 11-4-08-10

20 Petition by MIDROC OPERATING COMPANY, a foreign corporation
21 authorized to do and doing business in the State of Alabama, requesting
22 the State Oil and Gas Board to enter an order approving the exceptional
23 bottom hole location of the Cedar Creek Land and Timber 9-12 Well,
24 Permit No. 15772, as an exception to Rule 400-1-2-.02(2)(b) of the State
25 Oil and Gas Board of Alabama Administrative Code. Said well was
26 drilled on a 160-acre wildcat drilling unit consisting of the Southwest
27 Quarter of Section 9, Township 4 North, Range 13 East, Conecuh County,
28 Alabama, at a surface location 1,973 feet from the South line and 918 feet
29 from the West line of said 160-acre wildcat drilling unit, but said well
30 drifted such that the bottom hole location is 501 feet from the North line
31 and 1,055 feet from the West line of said 160-acre unit, and as such, is an
32 exception to said Rule.
33

34 Rule 400-1-2-.02(2)(b) requires that wells be drilled at least 660 feet from
35 every exterior boundary of the drilling unit, but the bottom hole location
36 of the referenced well, being 501 feet from the North line of said 160-acre
37 wildcat drilling unit, is an exception to said Rule.

17. DOCKET NO. 11-4-08-11

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 & Gas Board of Alabama to enter an order force pooling without risk compensation, all tracts and interests in coalbed methane produced from the Pottsville formation in an 80 acre drilling unit for the proposed Dunn 35-05-611 Well, having a unit consisting of all of the Southwest Quarter of the Northwest Quarter of Section 35 and the Southeast Quarter of the Northeast Quarter of Section 34, all in Township 17 South, Range 9 West, Tuscaloosa County, Alabama, in the White Oak Creek Coal Degasification Field. This petition is in accordance with Section 9-17-13, ALABAMA CODE (1975), as amended, and Rules 400-7-1 and 400-7-2 of the State Oil and Gas Board of Alabama Administrative Code. Petitioner requests that due and proper notice of the hearing on this matter be given in the manner and form and for the time required by law and the rules and regulations of this Board.

18. DOCKET NO. 11-4-08-12

Petition by DELPHI OIL, 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 the imposition of a risk compensation penalty, all tracts and interests in hydrocarbons produced in the 9216 JV-P Jordan 33-8 #1 Well, Permit No. 10600, located on a 160-acre unit consisting of the Northeast Quarter of Section 33, Township 6 North, Range 7 East, Monroe County, Alabama, in the North Excel Field.

This well was permitted on August 2, 1994, and drilled by BTA Oil Producers, and on January 10, 2001, Canecutter Production, Inc., became the operator of said well. On September 2, 2008, Delphi Oil, Inc., became the operator of the 9216 JV-P Jordan 33-8 #1 Well and said company is currently attempting to restore the mechanical integrity of the well in an effort to put it back on production and will plug and abandon the well if the mechanical integrity cannot be restored.

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.

1 19. DOCKET NO. 11-4-08-13

2 Petition by DELPHI OIL, INC., a foreign corporation authorized to do and
3 doing business in the State of Alabama, requesting the State Oil and Gas
4 Board to enter an order force pooling, without the imposition of a risk
5 compensation penalty, all tracts and interests in hydrocarbons produced in
6 the 9216 JV-P Hill 34-3 #1 Well, Permit No. 10727-B, located on a 160-
7 acre unit consisting of the Northwest Quarter of Section 34, Township 6
8 North, Range 7 East, Monroe County, Alabama, in the North Excel Field.
9

10 This well was permitted on February 14, 1995, and drilled by BTA Oil
11 Producers, and on January 10, 2001, Canecutter Production, Inc., became
12 the operator of said well. On September 2, 2008, Delphi Oil, Inc., became
13 the operator of the 9216 JV-P Hill 34-3 #1 Well and said company is
14 currently attempting to restore the mechanical integrity of the well in an
15 effort to put it back on production and will plug and abandon the well if
16 the mechanical integrity cannot be restored.
17

18 This Petition is in accordance with Section 9-17-13, Code of Alabama
19 (1975), as amended, and Rule 400-7-2-.01 of the State Oil and Gas Board of
20 Alabama Administrative Code.
21

22 20. DOCKET NO. 11-4-08-14

23 Petition by BLACK WARRIOR METHANE CORP., an Alabama
24 corporation, requesting the State Oil and Gas Board to enter an order
25 amending Rule 2 of the Special Field Rules for the Brookwood Coal
26 Degasification Field to add the East Half of the Northeast Quarter and the
27 Northwest Quarter of the Northeast Quarter of Section 17, Township 20
28 South, Range 8 West, Tuscaloosa County, Alabama to the field limits of
29 said Field.
30

31 21. DOCKET NO. 11-4-08-15

32 Petition by BLACK WARRIOR METHANE CORP., an Alabama
33 corporation, requesting the State Oil and Gas Board to enter an order
34 approving an exception to Rule 5 of the Special Field Rules for the
35 Brookwood Coal Degasification Field, Tuscaloosa County, Alabama, for
36 the open hole completion of the Belcher 33-06-556 Well, Permit No.
37 15813-C, located in Section 33, Township 20 South, Range 7 West.

22. DOCKET NO. 4-25-06-34
 Continued MOTION BY THE STATE OIL AND GAS BOARD OF ALABAMA requesting Operator, Lower 15 Oil Corporation to show cause why the following abandoned wells located in the Gilberttown Field, Choctaw County, Alabama, and described hereinbelow should not be ordered plugged and abandoned in accordance with Rule 400-1-4-.14 of the State Oil and Gas Board of Alabama Administrative Code relating to Plugging and Abandonment of Wells and the well sites and associated tank battery sites restored in accordance with Rule 400-1-4-.16 of the State Oil and Gas Board of Alabama Administrative Code relating to Restoration of Location. Additionally, the Frank Gibson #1 Well, Permit No. 1071, which is described hereinbelow under Plugged and Abandoned well was plugged and abandoned on August 21, 1997, however the well site has not been restored in accordance with Rule 400-1-4-.16 of the State Oil and Gas Board of Alabama Administrative Code relating to Restoration of Location. Further, the Board is requesting the operator to show cause why sites, such as well sites, production facility sites, and Class II injection facility sites should not be ordered to be brought into compliance with Rule 400-1-4-.10 of the State Oil and Gas Board of Alabama Administrative Code relating to Site Maintenance.

East Gilberttown Eutaw Unit Wells & Tank Batteries

<u>Permit No.</u> (Tank Battery No.)	<u>Well Name</u> (Tank Battery)	<u>Location</u>
1280	Mattie Clark #1	S1, T10N, R3W
1293	C. F. Stewart Heirs #1	S1, T10N, R3W
(1293 TB)	(C. F. Stewart Heirs #1)	S1, T10N, R3W
1338	Mattie Clark #3	S1, T10N, R3W
10416	Mattie E. Clark #1-6	S1, T10N, R3W
(1343 TB)	(Abston Jones 1-6)	S1, T10N, R3W

Other Well

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
1431	Joseph W. Hutchinson, Jr. et al #1	S7, T10N, R3W

Plugged and Abandoned well (well site not restored)

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
1071	Frank Gibson #1	S1, T10N, R3W

23. DOCKET NO. 8-26-08-25

Continued MOTION BY THE STATE OIL AND GAS BOARD OF ALABAMA requesting Operator, Daybreak Oil and Gas, Inc., to show cause why the following abandoned wells located in the Gilberttown Field in Choctaw County, Alabama, and described hereinbelow should not be ordered plugged and abandoned in accordance with Rule 400-1-4-.14 of the State Oil and Gas Board of Alabama Administrative Code relating to Plugging and Abandonment of Wells and the well sites and associated tank battery sites restored in accordance with Rule 400-1-4-.16 of the State Oil and Gas Board of Alabama Administrative Code relating to Restoration of Location.

Gilberttown Field Wells (non-unitized) grouped by wells that produce to a common Tank Battery

<u>Permit No.</u> (Tank Battery No.)	<u>Well Name</u> (Tank Battery)	<u>Location</u>
190	A. M. Mosley #1	S3, T10N, R3W
1052	Leo Stewart	S2, T10N, R3W
3102	Stewart #3-9	S3, T10N, R3W
3094	Long #5-5	S5, T10N, R3W
4231	Kingree #5-12	S5, T10N, R3W
(102 TB)	(Carolyn Moseley #1)	S5, T10N, R3W
271	F. A. Adams et al #1	S6, T10N, R3W
(258 TB)	(Cooper Wigham # 1)	S6, T10N, R3W
3469	Smith Trice #34-10	S34, T11N, R4W
(3469 TB)	(Smith Trice #34-10)	S34, T11N, R4W

Gilberttown Field Well (non-unitized) with no tanks or salt water disposal well

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
3096	Steve Scruggs #32-10	S32, T11N, R4W

1 Gilbertown Field Wells in the Gilbertown (Eutaw Sand) Unit grouped by
2 wells that produce to a common Tank Battery and a former water injection
3 well
4

5 129	F. M. Mosley #1	S3, T10N, R3W
6 1367	Rex Alman #4	S4, T10N, R3W
7		
8 113	Johnson Unit #1	S4, T10N, R3W
9 131-A	E. A. Rentz #2	S4, T10N, R3W
10		
11 136	F. M. Johnson 4-7 #2	S4, T10N, R3W
12 (Former injection well)		
13		

14 Hearings of the State Oil and Gas Board are public hearings, and members
15 of the public are invited to attend and present their position concerning
16 petitions. Requests to continue or oppose a petition should be received by
17 the Board at least two (2) days prior to the hearing. The public should be
18 aware that a petition may be set for hearing on the first day or second day
19 of the hearing or may be continued to another hearing at a later date. We
20 suggest, therefore, that prior to the hearing, interested parties contact the
21 Board to determine the status of a particular petition. For additional
22 information, you may contact the State Oil and Gas Board, P. O Box
23 869999, Tuscaloosa, Alabama 35486-6999, Telephone Number 205/349-
24 2852, Fax Number 205/349-2861, or by email at petitions@ogb.state.al.us.
25

26 DR. TEW: The staff prepared a docket for the Board's November 4 and 6, 2008,
27 meeting. That docket was admitted into the record at the Hearing Officer Meeting on November
28 4th. Marvin Rogers, acting as Hearing Officer, and the staff heard various items at the Hearing
29 Officer meeting on November 4, 2008. At this time Mr. Rogers will make his report to the
30 Board.

31 MR. ROGERS: Mr. Chairman and members of the Board, I have a written report of the
32 items heard by the Hearing Officer and the staff on Tuesday, November 4, 2008. Copies of that
33 report are available for members of the public to review and study. I submit this Hearing Officer
34 report to the Board for approval and request that the Hearing Officer Report be approved.

35 CHAIRMAN GRIGGS: Do I have a motion on the Hearing Officer's report?

36 MRS. PRITCHETT: So move.

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1 CHAIRMAN GRIGGS: We have a motion.

2 MR. PEARSON: Second.

3 CHAIRMAN GRIGGS: Motion and a second. All in favor?

4 (All Board members voted "aye")

5 CHAIRMAN GRIGGS: "Ayes" have it. The Hearing Officer's report is approved.

6 MR. ROGERS: Mr. Chairman, I recommend that that report be admitted into the record.

7 CHAIRMAN GRIGGS: It is so admitted.

8 (Whereupon, the Hearing Officer's report was received in evidence)

9 DR. TEW: The staff has prepared an agenda of the items to be heard by the Board today.
10 Mr. Rogers, will you call the first item, please?

11 MR. ROGERS: Mr. Chairman and members of the Board, the first item is Item 1,
12 Docket No. 4-14-08-7A, petition by Land and Natural Resource Development, Inc. That item
13 also relates to Item 2, petition by Land and Natural Resource Development, Inc.

14 CHAIRMAN GRIGGS: Mr. Watson, is there any reason we can't consolidate Item 1 and
15 Item 2 for hearing purposes?

16 MR. WATSON: That would be my request.

17 CHAIRMAN GRIGGS: Thank you sir. Who is here to represent the parties in this case?

18 MR. WATSON: I have Stephen Wolf and David Higginbotham. I would like to have
19 them sworn in, please sir.

20 MR. ROGERS: Will you gentlemen stand and state your names and addresses?

21 MR. WOLF: Steve Wolf, Tuscaloosa, Alabama.

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

23 (Witnesses were sworn by Mr. Rogers)

24 MR. WATSON: Mr. Chairman, in consolidating these two items for hearing purposes I
25 would ask that you receive into the record of this hearing the prefiled affidavits of notice in these
26 items.

27 CHAIRMAN GRIGGS: They are admitted to the record, Mr. Watson.

28 (Whereupon, the affidavits were received in evidence)

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1 MR. WATSON: We are asking in these two petitions today that have been amended for
2 approval to re-enter a well to attempt to complete this re-entry in the Tuscumbia or Millerella on
3 a 320-acre unit consisting of the West Half of Section 16 where we had originally drilled and
4 approved the Cunningham 16-12 No. 2 Well, Permit No. 5881. That is in the Coal Fire Creek
5 Field in Pickens County, Alabama. That well was originally approved as an exceptional location
6 and was originally force pooled twice upon application of Jabsco Operating Company. We have
7 a force pooling order issued on December 19, 1997, Order No. 97-154, that force pooled the
8 Pennsylvanian and Mississippian aged strata in that 320-acre unit, the West Half of Section 16,
9 Township 18 South, Range 14 West, Pickens County, in the Coal Fire Creek Field for the
10 Carpenter Shirley well that produced from the Fayette and the Carter sand gas pools. That was a
11 force pooling with risk compensation imposed. Subsequent to that order on July 23, 1998, the
12 Board issued a second force pooling order, Board Order 98-85, for the Gulf States Paper 16-6
13 No. 1 Well, Permit No. 11459, on the same unit, the West Half of Section 16, force pooling
14 tracts and interests in that unit with the imposition of risk compensation for the production from
15 the Lewis Sand Gas Pool. Today we are proposing to re-enter the well on that unit to attempt a
16 completion in two zones that have not yet produced, the Millerella and the Tuscumbia. What I
17 am specifically asking the Board to do is from the order forward to limit those two prior force
18 pooling orders, 97-154 and 98-85, to those specific zones that were force pooled with risk
19 compensation. Let those orders remain in effect. The testimony that you will hear today is that
20 Land and Natural Resource Development, Inc. has all of the rights necessary to go in and to test
21 the Tuscumbia and the Millerella in an attempt to produce an additional zone or zones in this
22 unit. Having given that brief introduction, my first witness is going to be Steven Wolf. I am
23 going to ask Steve to tell you what his position is with Land and Natural because I don't think he
24 has appeared before this Board.

25 CHAIRMAN GRIGGS: If you will, Mr. Watson, I also ask that he go into some of his
26 background, please.

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1 MR. WATSON: He has appeared before the Board but not before you, this new Board,
2 is what I should say. Mr. Wolf, give the Board your position with Land and Natural and your
3 background, please.

4 MR. WOLF: I am President of Land and Natural Resource Development. I began my
5 career in the oil and gas business with Atlantic Richfield 25 years ago. Since 1987 I have been
6 here in Tuscaloosa as an operator in Tuscaloosa and Northport.

7 MR. WATSON: Are you familiar, Mr. Wolf, with the ownership and with the operations
8 in this West Half of Section 16 that I have just described to the Board?

9 MR. WOLF: I am.

10 CHAIRMAN GRIGGS: Mr. Watson, are we qualifying him as an expert petroleum
11 geologist or a landman?

12 MR. WATSON: Landman. Having stated that he is familiar with the ownership and
13 with the land in here, I tender him, Mr. Chairman, as an expert petroleum land man and as the
14 corporate representative of Land and Natural.

15 CHAIRMAN GRIGGS: He is so recognized, Mr. Watson.

16 STEVEN WOLF

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

19 DIRECT EXAMINATION

20 Questions by Mr. Watson:

21 Q. Mr. Wolf, you have heard my opening comments. I would like for you to briefly tell the
22 Board what your company's plans are relative to this proposed re-entry and how you
23 have acquired the rights to go into this re-entry in an attempt to complete in the Millerella
24 or Tuscumbia.

25 A. As you said, our intention here is to test these two zones and produce them or plug the
26 well. The rights that we have are assignments of all interest as to this wellbore or a
27 substitute well in that quarter-quarter section by Jabsco, Samson and Browning & Welch,
28 a farm-out of all those same rights from AROC Oil and Gas and Milagro Exploration and

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- 1 a JOA for a small interest with Findley Resources. I would say the assignment from
2 Jabsco is all rights except the Lewis, Carter and Fayette. All the other agreements are as
3 to all rights.
- 4 Q. Jabsco reserved those zones because they have two wells that are producing in this same
5 west half unit from zones other than the Millerella and Tuscumbia, correct?
- 6 A. That is correct. I also have letters in support of these petitions from Jabsco and Samson
7 who are the parties-in-interest in the force pooling orders. I have an agreement with
8 Jabsco as to the completion procedure or the limitations on the frac job, if we elect to do
9 a frac, that we would do a small frac, to eliminate any concern of theirs that we would be
10 interfering with their production of the other zones.
- 11 Q. Now, Mr. Wolf, in proposing this re-entry you have prefiled with this Board a complete
12 permit application which would include the OGB-2, an affidavit of ownership and
13 control, for these two formations, the Millerella and the Tuscumbia. Is that correct?
- 14 A. That is correct.
- 15 Q. You also have a title opinion from John Tyra indicating that you do have all of these
16 rights. Is that correct?
- 17 A. That's correct.
- 18 Q. If the Board sees fit to approve our proposed re-entry and Mr. Higginbotham will testify
19 to that in a minute, when would your company be prepared to go in to attempt these
20 completions in these two zones that you have just described?
- 21 A. Given availability of equipment, we intend to within the next 90 days and hope to before
22 the end of the year.
- 23 Q. All right sir. You fully understand and respect the interest of the two producing wells
24 that Jabsco has in this west half unit. You have been in contact with Jabsco relative to
25 your plans. You have worked out this frac, if fracing becomes necessary, to produce this
26 well with Jabsco in a side letter written agreement. Jabsco, of course, will have access to
27 all the information during the re-entry and testing of this well. Is that right?
- 28 A. That is correct.

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1 MR. WATSON: I would like to call my next witness, Mr. Chairman.

2 CHAIRMAN GRIGGS: Proceed, Mr. Watson.

3 MR. WATSON: Mr. Chairman, my next witness is David Higginbotham, a petroleum
4 geologist who has on file an affidavit of his qualifications. Mr. Higginbotham, are you familiar
5 with the proposed re-entry of the Cunningham 16-12 No. 2 Well and have you prepared exhibits
6 in support of that re-entry?

7 MR. HIGGINBOTHAM: Yes I have.

8 MR. WATSON: I tender him as an expert petroleum geologist, Mr. Chairman.

9 CHAIRMAN GRIGGS: He is so recognized, Mr. Watson.

10 DAVID HIGGINBOTHAM

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

13 DIRECT EXAMINATION

14 Questions by Mr. Watson:

15 Q. Take your first exhibit Mr. Higginbotham and tell us what the exhibit is and briefly give
16 us the information that is shown on this exhibit, please sir.

17 A. Exhibit No. 1 is a structure contour map on the base of the Lewis sand in the Coal Fire
18 Creek area. It illustrates the structural geology in Section 16 and Section 17. For each
19 well listed on each section there is geological information, fault cuts in each well,
20 subsurface tops at the base of the Lewis sand, faults, what each well did, and the reservoir
21 quality in each well for the different horizons. Outlined in yellow is the proposed unit of
22 our proposed re-entry which is the West Half of Section 16.

23 Q. On this exhibit point out for the Board the two wells that are currently being operated by
24 Jabsco.

25 A. The two wells currently being operated by Jabsco are in the Northwest Quarter of Section
26 16, Permit No. 11459 and Permit No. 4637-A.

27 Q. Which well is producing from which zone or zones?

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- 1 A. Permit No. 11459 is currently completed in the Lewis sandstone. The well to the north is
2 currently producing in the Fayette sandstone.
- 3 Q. You are saying geologically that the proposed re-entry for the Millerella and the
4 Tusculmbia is separate and apart and would be a separate pool if proven to be productive
5 from those two producing pools in the west half?
- 6 A. That is correct.
- 7 Q. Let's look at your next exhibit, Exhibit No. 2. This is a type log. Describe the
8 information shown on that log.
- 9 A. Exhibit No. 2 is a micro log of the Terra Cunningham 16-12 well. This well was drilled
10 back in 1988 and plugged and abandoned by the operator. At that time natural gas prices
11 were approximately \$1.00 an Mcf. We believe there are two zones that are productive as
12 shown in this well, the Tusculmbia Limestone down from 4,960 to 4,972 outlined in green
13 and also the Millerella sand which is at 4,518 to 4,524 outlined in blue.
- 14 Q. You also point out on this exhibit, do you not, the location of the Lewis sand?
- 15 A. The Lewis sand is located between the Millerella and Tusculmbia Limestone.
- 16 Q. Your Exhibit No. 3, Mr. Higginbotham.
- 17 A. Exhibit No. 3 is a stratigraphic cross section illustrating the Carter sand interval in the
18 Coal Fire Creek Field. This cross section shows all the wells in Section 16 that are
19 pertinent to this petition. From left to right, the Terra Cunningham well is on the left, the
20 two Jabsco wells are in the center and the well on the far right is the type log for the Coal
21 Fire Creek Field. What this cross section illustrates is that the Carter sand interval as
22 defined in the Coal Fire Creek Field by the Kelly 15-16 is stratigraphically below the
23 proposed zone that Land and Natural Resource desires to test, the Millerella sand. It is
24 illustrated on the Cunningham well at a depth of 4,518 to 4,524.
- 25 Q. Exhibit No. 4, Mr. Higginbotham.
- 26 A. Exhibit No. 4 is a well plat illustrating the unit boundary of the proposed Cunningham re-
27 entry in the West Half of Section 16.

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- 1 Q. This is the original plat that was presented to the Board on July 12, 1988, showing the
2 location being off that west line that would be an exceptional location. Is that correct?
- 3 A. Yes sir that is correct.
- 4 Q. All right. In the permit application that we have filed for the re-entry, we have a new
5 survey plat for that well. Is that right?
- 6 A. Yes sir.
- 7 Q. I have prefiled that with the Board and at the appropriate time I will ask that that be
8 incorporated into the record. The field rules for the Coal Fire Creek Field require wells
9 to be located on 320-acre units at least 660 feet from every exterior boundary. This well
10 is located closer than that, is it not?
- 11 A. That is correct.
- 12 Q. What is the distance of this well from the unit boundary?
- 13 A. 330 feet.
- 14 Q. The most recent plat shows 396 feet.
- 15 A. Okay, 396 feet.
- 16 Q. So, apparently from the time this well was permitted until you had it resurveyed, the
17 location was not drilled exactly on that site. It is 396 feet.
- 18 A. That is correct.
- 19 Q. Go to Exhibit No. 5. Tell us what that exhibit is, please sir.
- 20 A. Exhibit No. 5 is a structure contour map on top of the Carter sand. This is a map that I
21 did 20 years ago and presented to the Board as evidence for the initial proposed location
22 that Terra Resources drilled. The geology is very, very similar. This map is just to
23 illustrate the reason why the exceptional location was needed in the first place.
- 24 Q. Why wasn't this well drilled at a regular location 660 feet from the west boundary?
- 25 A. Because there was a risk of having a small fault that cuts the Cunningham 16-12 No. 1
26 well and the Shelton 17-8 well. There was a risk of potentially being faulted out at a
27 legal location.

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- 1 Q. Initially when this well was first permitted and approved and force pooled, it was done so
2 to locate the well at the optimum geological location on this unit because a regular
3 location would possibly not have been productive. Is that the point?
- 4 A. That's correct.
- 5 Q. Go to your next Exhibit No. 6.
- 6 A. Exhibit No. 6 is an isopach map of the Upper Carter sand porosity. It illustrates the
7 location of the exceptional location in Section 16.
- 8 Q. Does this show then that that zone or porosity should be between 10 and 20 units?
- 9 A. That's correct.
- 10 Q. This is the same map that you presented back when the well was first permitted?
- 11 A. Yes sir.
- 12 Q. Your next exhibit, No. 7.
- 13 A. Exhibit No. 7 is an isopach map of the Lower Carter sandstone porosity. It illustrates that
14 the proposed location had less than ten feet of Lower Carter sand.
- 15 Q. Again, this was justification for locating this well at the exceptional location when it was
16 initially drilled. Is that correct?
- 17 A. That's correct.
- 18 Q. Your next exhibit is the structural cross section A-A' which is the large map.
- 19 A. Exhibit No. 8 is the structural cross section that was presented to the Board 20 years ago
20 in support of the original petition for the exceptional location.
- 21 Q. Structurally what does it show, Mr. Higginbotham?
- 22 A. It shows that the proposed location for the original Cunningham well was anticipated to
23 be slightly low to the Carter sand in the Shelton 17-8 well.
- 24 Q. Exhibit No. 9.
- 25 A. Exhibit No. 9 is bottom hole pressure vs. time in the Carter sandstone of selected wells in
26 the Coal Fire Creek area.
- 27 Q. What does it tell us, Mr. Higginbotham?

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- 1 A. It illustrates that the geology as mapped is supported by reservoir engineering production
2 data and bottom hole pressure data.
- 3 Q. Exhibit No. 10.
- 4 A. Exhibit No. 10 is a microlog isopach of the Carter sandstone. It illustrates that the
5 proposed location potentially had productive Carter sand in the area of the proposed
6 location.
- 7 Q. It did in fact drill up and had Carter sand, did it not?
- 8 A. Yes it did.
- 9 Q. Is it fair to say that these exhibits that you are adopting and with the new exhibits that you
10 are presenting today that your geology was confirmed by the initial drilling of the
11 Cunningham 16-12?
- 12 A. Yes it was.
- 13 Q. Is it also your testimony that the reason that you did not complete these other zones or
14 attempt to complete these other zones or other operators didn't attempt to complete these
15 was because of the economic factors pertaining to the price of gas?
- 16 A. That is correct. The productive zones in the well were too thin at the time of \$1.00 Mcf
17 gas prices. A completion was not attempted in the Carter sand either because while the
18 Upper Carter sand had gas in it the Lower Carter sand had water in it and it was thought
19 that in order to get an economic amount of gas from the Upper Carter that a fracture
20 stimulation would have been necessary and that a fracture stimulation constituted a
21 significant risk of encountering water in the Lower Carter sand in that wellbore.
22 Consequently, that wellbore was plugged.
- 23 Q. Neither the Millerella nor the Tuscumbia are presently covered in the Special Field Rules
24 for the Coal Fire Creek Field. If you make a well in either of these zones it will be
25 necessary, and you understand that it will be necessary, for Land and Natural to come
26 back to the Board to amend the Special Field Rules to include one or both of those zones
27 that you plan to test on your re-entry of this well. You understand that?
- 28 A. Yes sir.

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1 Q. You also heard Mr. Wolf's testimony that if it becomes necessary to frac this well that
2 Land and Natural has reached an agreement with Jabsco who operates the other two wells
3 you have described in this unit to frac the well in such a manner that would not interfere
4 with or affect the productivity of those wells?

5 A. That's correct.

6 Q. Is it your testimony that these zones can be adequately tested and produced under those
7 constraints that you have agreed to with Jabsco?

8 A. Yes sir.

9 Q. Such that if we, in fact, encounter gas in either of those zones we would not have an
10 occasion to have waste created by being unable to produce those zones. They would be
11 able to produce those based on the design limits on the frac that we have agreed to with
12 Jabsco.

13 A. That's correct.

14 MR. WATSON: Mr. Chairman, I would ask that you receive into the record of the
15 hearing Exhibits 1 through 10 to the testimony of Mr. Higginbotham.

16 CHAIRMAN GRIGGS: Mr. Watson, Exhibits 1 through 10 are admitted into evidence
17 and into the record.

18 (Whereupon, the exhibits were received in evidence)

19 Q. Mr. Higginbotham, if the Board sees fit to grant our petitions limiting the force pooling
20 orders to prospective applications, given the fact that Land and Natural has ownership
21 rights in the Tuscumbia and the Millerella, would the granting of these petitions prevent
22 waste and protect correlative rights?

23 A. Yes it would.

24 Q. Literally it would prevent waste, would it not, because without testing these zones we
25 may very well be leaving gas in the ground that is not otherwise going to be produced
26 unless we are allowed to go in and attempt to complete in these two zones, correct?

27 A. Absolutely.

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1 Q. Would the granting of these petitions avoid the drilling of an unnecessary well, that is by
2 re-entering a wellbore that is already there it would not be necessary to drill another well,
3 would it?

4 A. That's correct.

5 MR. WATSON: Mr. Chairman, I tender Mr. Wolf and Mr. Higginbotham to you and
6 members of the staff for any questions you have.

7 CHAIRMAN GRIGGS: Dr. Tew, do you have any questions or do any members of the
8 staff have any questions of either Mr. Wolf or Mr. Higginbotham? Mr. Masingill.

9 MR. MASINGILL: Mr. Watson, would you like to incorporate the record from the
10 original hearing? I think the Order Number was 88-196 when the exceptional location was
11 originally approved?

12 MR. WATSON: Yes sir I would.

13 CHAIRMAN GRIGGS: Okay. We will incorporate that into the record Mr. Watson.
14 (Whereupon, the record related to Order No. 88-196 was
15 incorporated by reference)

16 MR. ROGERS: Mr. Rogers, would you like to admit into the record this survey?

17 MR. WATSON: Yes and I'll have Mr. Higginbotham sign that for you because he did
18 not sign that one.

19 MR. ROGERS: That raises the question then, do you want to amend orally and then in
20 writing the location of the well because the petition says 330?

21 MR. WATSON: Yes.

22 CHAIRMAN GRIGGS: It is 396.

23 MR. WATSON: Yes, based on the resurvey I would orally amend as to conform with the
24 testimony. We were sticking with the original permit number and the location of the well. This
25 is the most recent survey of that location so I would orally amend that.

26 CHAIRMAN GRIGGS: We will admit the amended exhibit.

27 (Whereupon, the amended exhibit was received in evidence)

28 CHAIRMAN GRIGGS: Dr. Tew.

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1 DAVID HIGGINBOTHAM

2 EXAMINATION BY BOARD/STAFF

3 Questions by Dr. Tew:

4 Q. Good morning, Mr. Higginbotham. You may have stated this but I just wanted to go
5 back and make sure that it was clear. Is it your testimony that the zones that you intend
6 to try to complete in this well, if the Board so grants permission to do so, that these zones
7 are in no way in communication with the zones that are producing in the other two wells
8 in this unit?

9 A. That is correct. All of these exhibits illustrate that there are two degrees of separation
10 between the two wells. First of all they are stratigraphically separated but most
11 importantly they are structurally separated by two faults. That is the reason why in
12 Exhibit No. 1, I have included fault cuts for every single wellbore on the map. So, yes,
13 structural separation and you have stratigraphic separation between all these zones.

14 DR. TEW: Thank you.

15 CHAIRMAN GRIGGS: Any further questions from the staff? From Board members?

16 MR. PEARSON: I do have a few questions.

17 STEVEN WOLF

18 EXAMINATION BY BOARD/STAFF

19 Questions by Mr. Pearson:

20 Q. Mr. Wolf, do I understand correctly from your testimony that petitioner has 100 percent
21 voluntary ownership or control as to both the Millerella and the Tuscumbia?

22 A. That is correct.

23 Q. Who is the existing operator for the wells that produce in this unit?

24 MR. WATSON: Jabsco Operating.

25 MR. PEARSON: Is there anybody from Jabsco present today?

26 MR. WATSON: Yes.

27 Q. Mr. Wolf, your testimony was that Jabsco had made wellbore assignments for the well
28 that you are talking about re-entering. Is that right?

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1 A. That's correct.

2 Q. Is that wellbore assignment limited to that particular wellbore and any substitute well?

3 A. That is my memory.

4 Q. With that limitation as to that wellbore or substitute wellbore, you said that it accepted
5 the Lewis, the Carter and the Fayette interval?

6 A. That's correct.

7 Q. So the assignment covers everything else?

8 A. Everything else.

9 DAVID HIGGINBOTHAM

10 EXAMINATION BY BOARD/STAFF

11 Questions by Mr. Pearson:

12 Q. Mr. Higginbotham, look at your Exhibit No. 3, your stratigraphic cross section. Look to
13 the left of your Exhibit 3 where you have your proposed west half unit indicated for the
14 Millerella sand. Do you see that? Do you have the type log there?

15 A. Right here?

16 Q. Yes. Am I correct in reading your exhibit that the Millerella is virtually directly on top of
17 the Carter sand as you are showing here?

18 A. No, it is not actually on top of the Carter sand. It is on top of the interval. That's why I
19 have illustrated the sand in yellow. The sand is in yellow, the actual sandstone. Above
20 the yellow on the cross section is shale. It is not sitting directly on top of the sand by any
21 means.

22 Q. Are you familiar with the fact that the Special Field Rules define the Carter interval?

23 A. Absolutely. That's the purpose of this cross section with the type log of the Carter sand
24 interval in the Coal Fire Creek Field in the Kelly well.

25 Q. Am I correct that your two dark lines that indicate the top of the Carter sand and the base
26 of the Carter sand are consistent with the definition of the Carter sand interval as is now
27 contained in the Special Field Rules?

28 A. Yes, that's right.

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1 Q. So with that in mind am I correct in looking at your Exhibit No. 3 that where you are
2 depicting the Millerella that you are intending to complete in and which I understand you
3 have a wellbore assignment for, that that Millerella interval is directly on top of the
4 defined top of the Carter sand interval?

5 A. That is correct.

6 STEVEN LEWIS

7 EXAMINATION BY BOARD/STAFF

8 Questions by Dr. Pearson:

9 Q. Mr. Lewis, I'm going to come back to you here. At this point any production from the
10 Carter interval would be excluded from your wellbore assignment. Is that right?

11 A. That's correct.

12 Q. If I'm correct in the interpretation of this then, any production from the Carter sand
13 interval in this field is left under the control of Jabsco. Am I right?

14 A. That's correct.

15 Q. You understand that if in the future there comes to be some question as to where
16 production is coming from with respect to the Millerella that Jabsco apparently is the
17 current operator and by your testimony today has ownership or control of those rights.
18 Do you understand that?

19 A. I do.

20 MR. PEARSON: I would like for Jabsco's representative to step to the microphone and I
21 would like for him to be sworn, please.

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

23 MR. LANG: Adam Lang, Tuscaloosa, Alabama.

24 (Witness was sworn by Mr. Rogers)

25 MR. GRIGGS: Was that Lane or Lang?

26 MR. LANG: L-A-N-G.

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1 MR. WATSON: Mr. Lang is here this morning at our request and he is here in his cattle
2 round-up clothes. I told him to come as he was. He has been busy this morning. He means no
3 disrespect to this Board in appearing before you. He came straight from the cattle farm.

4 MR. GRIGGS: Mr. Watson, we are all working men no matter how they clothe us.

5 MRS. PRITCHETT: And women.

6 MR. GRIGGS: And women.

7 MR. PEARSON: I have been familiar with Mr. Lang for a long time. Mr. Lang, could
8 you for the record state your relationship with Jabsco Oil?

9 MR. LANG: I am a member of the LLC, co-owner. My duties range from geological
10 issues to everyday lease administration, top to bottom. We are a smaller company and I oversee
11 many aspects of the business.

12 MR. PEARSON: Are you able to represent Jabsco here today as the operator of the
13 existing petition wells?

14 MR. LANG: Yes sir.

15 MR. PEARSON: Are you familiar with the arrangements that have been made with Land
16 and Natural?

17 MR. LANG: Yes sir.

18 MR. PEARSON: Is it your testimony that Jabsco Oil, the current operator, has no
19 opposition or objection to the proposal being made by Land and Natural?

20 MR. LANG: No. In fact, we have issued a letter from Jabsco Oil, LLC who was the
21 assignor of the assignments that we have been discussing here indicating and attached to their
22 exhibit that we didn't have any objection to that. Our only request is that we retain all rights that
23 we do have and that we are the operator of the two wells that have been mentioned here and that
24 the Fayette, Carter and Lewis be protected to our rights as they stand.

25 MR. PEARSON: You understand, Mr. Wolf, as y'all proceed that you are in agreement,
26 that that is the understanding with Jabsco Oil? Is that correct?

27 MR. WOLF: Yes it is.

28 MR. PEARSON: Thank you. I don't have any further questions, Mr. Chairman.

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1 MR. GRIGGS: Any further questions of Mr. Lang?

2 MR. PEARSON: No sir. Thank you, Mr. Lang.

3 MR. GRIGGS: Any further questions by the staff or any member of the Board? We
4 would entertain a motion on these consolidated docket items.

5 MR. PEARSON: If I could, Mr. Chairman, I'm going to make a motion that we grant
6 Item 1 as has been amended by the survey plat presented by Mr. Watson.

7 MRS. PRITCHETT: Second.

8 MR. GRIGGS: A motion and a second on Item 1. Any further discussion? Hearing
9 none, we'll hear a vote. All in favor say "aye."

10 (All Board members voted "aye")

11 MR. GRIGGS: "Ayes" have it. Docket Item No. 1 is granted.

12 MR. PEARSON: As to Item No. 2, Mr. Chairman, I would move that we grant Item 2
13 but with the condition that the modification of the previous force pooling orders is to limit that
14 modification to the wellbore or substitute wellbore of the proposed well and to further limit the
15 modification of the prior force pooling orders to excepting the Millerella and Tuscumbia
16 formations in the wellbore and substitute wellbore.

17 MR. GRIGGS: We have a motion conditioned as stated by Mr. Pearson.

18 MRS. PRITCHETT: Second.

19 MR. GRIGGS: We have a motion and a second. All in favor say "aye."

20 (All Board members voted "aye")

21 MR. GRIGGS: "Ayes" have it. Docket Item No. 2 is granted.

22 MR. PEARSON: I need to make one request of Mr. Watson. If you could help the
23 Board and staff, Mr. Watson, with the proposed order that specifically defines those exceptions
24 that we have just discussed in a way that would be acceptable to Land so that the Board and staff
25 can review it.

26 MR. WATSON: Yes sir.

27 MR. PEARSON: Thank you.

28 CHAIRMAN GRIGGS: Mr. Rogers, would you call the next docket item?

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1 MR. ROGERS: The next item, Mr. Chairman, is Item 16, Docket No. 11-4-08-10,
2 petition by Midroc Operating Company.

3 MR. WATSON: I have one witness and would like to have him sworn in, please.

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

5 MR. ELGIN: Jerry Elgin, Shreveport, Louisiana.

6 (Witness was sworn by Mr. Rogers)

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

9 CHAIRMAN GRIGGS: It is admitted, Mr. Watson.

10 (Whereupon, the affidavit was received in evidence)

11 MR. WATSON: This is a request by Midroc Operating Company asking the Board to
12 approve an exceptional bottom hole location for a well located on a 160-acre wildcat drilling unit
13 in Conecuh County, that being an exception to Rule 400-1-2-.02(2)(b) of the Administrative
14 Code for the Cedar Creek Land and Timber 9-12 well, Permit No. 15772. The 160-acre wildcat
15 drilling unit is the Southwest Quarter of Section 9, Township 4 North, Range 13 East, Conecuh
16 County, Alabama. My witness is Jerry Elgin who has on file with this Board an affidavit of his
17 qualifications as a petroleum engineer. Mr. Elgin, are you familiar with this petition and with the
18 well that I have just described?

19 MR. ELGIN: Yes I am.

20 MR. WATSON: I tender him as an expert witness for giving testimony in this item, Mr.
21 Chairman.

22 CHAIRMAN GRIGGS: Mr. Watson, he is recognized as an expert petroleum engineer.

23 MR. WATSON: Although I did not prefile this as an exhibit I have a Board published
24 map that will give you a location of this well as we go through this, if you would like to look at
25 that. I have prefiled an affidavit of testimony of Mr. Elgin, Mr. Chairman, and at the conclusion
26 I would ask that it be made a part of the record. If you would take that affidavit of testimony and
27 flip over you will find as an Exhibit 1 to Mr. Elgin's testimony a surveyor's plat. Mr. Elgin is
28 going to testify to that surveyor's plat and then the map that I have handed up for the Little Cedar

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1 Creek Field has highlighted in yellow the location of this 160-acre wildcat unit in relationship to
2 the field limits and the unit at Little Cedar Creek. Mr. Elgin, you are familiar with this well and
3 the fact that it has drifted to an exceptional location that would be an exception to Rule 3 of the
4 Special Field Rules for the Little Cedar Creek Field that require all wells to be located at least
5 660 feet from every exterior boundary. This being a wildcat unit being drilled outside the field
6 limits, the statewide rule that I have just cited to the Board also requires 660 feet from every
7 exterior boundary of a wildcat drilling unit on 160 acres, does it not?

8 MR. ELGIN: It does, yes.

9 MR. WATSON: I can't remember if I have tendered him as an expert witness. Did I,
10 Mr. Chairman?

11 CHAIRMAN GRIGGS: You have and he has been recognized, Mr. Watson.

12 JERRY ELGIN

13 Appearing as a witness on behalf of Petitioner, Midroc Operating Company, testified as
14 follows:

15 DIRECT EXAMINATION

16 Questions by Mr. Watson:

17 Q. Tell us about the situation with this well, Mr. Elgin. First tell us the current condition of
18 the well.

19 A. The well is currently undergoing completion efforts. We have a completion rig on the
20 well even as we meet here today and should know something about the outcome of the
21 well by next week.

22 Q. You ran a bottom hole directional survey on this well and that is where you learned that
23 the well had drifted to a location as shown on this plat. Is that correct?

24 A. That is correct.

25 Q. Tell us what that location is, please.

26 A. The location drifted to the northeast and is now 1,055 feet from the West line and 501
27 feet from the North line of our 160-acre unit.

28 Q. Was that a natural drift? It was not intentionally directed in that direction was it?

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1 A. It was not intentionally deviated, no.

2 Q. Based on your experience do wells in this field sometimes naturally walk in a direction
3 such that sometimes we have had to ask for exceptional locations?

4 A. They do occasionally drift, yes.

5 Q. This well, if it is completed, if your attempts to complete it are successful, would have to
6 be brought into the field in order to produce. Do you understand that?

7 A. Yes I do.

8 Q. Tell us about the well just immediately to the west of this well, Permit No. 15794-B, as
9 shown on the map that I have handed up.

10 A. That was a Sklar Exploration well. Midroc Operating Company owned just a little less
11 than 50 percent of that well so we are familiar with the operations. It has been plugged as
12 a dry hole after being drilled to Subdivision 16 and Subdivision 15.

13 Q. This well as it is presently located at this exceptional location, if you are able to complete
14 this well would it effectively test the hydrocarbons under this 160-acre unit or would you
15 be able to effectively test this 160-acre unit?

16 A. Yes we would.

17 MR. WATSON: Mr. Chairman, I would ask that you receive into the record of the
18 hearing the prefiled affidavit of testimony of Mr. Elgin.

19 JERRY ELGIN

20 EXAMINATION BY BOARD STAFF

21 Questions by Chairman Griggs:

22 Q. Mr. Elgin, just a question or two about the plat that is attached, Midroc Operating
23 Company. That was not prepared by you or under your direction, was it?

24 A. The distances were, yes, but I did not prepare the plat. It was prepared by Engineering
25 Services.

26 Q. Was it prepared at your request?

27 A. It was, yes.

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1 Q. With regard to what you show as Exhibit 2 that is attached to your affidavit, how did you
2 get that exhibit?

3 A. This was the survey that was run by Scientific Drilling just prior to running our core
4 barrel in the hole on this well.

5 Q. Again, at your request?

6 A. This is a requirement, yes sir.

7 CHAIRMAN GRIGGS: Mr. Watson, maybe I missed this but I don't recall any
8 testimony about Exhibit 2 by Mr. Elgin.

9 MR. WATSON: No sir but we will be glad to give you this testimony.

10 JERRY ELGIN

11 DIRECT EXAMINATION

12 Questions by Mr. Watson:

13 Q. Basically this directional survey is the basis for the plat. I'll ask Mr. Elgin to tell us what
14 is shown on that Exhibit 2 on the directional survey which is the information that we give
15 Engineering Services to prepare the plat. Tell them about Exhibit 2, the directional
16 survey.

17 A. Exhibit 2 is the results of a gyroscopic survey that was done on this well just prior to
18 running the core barrel at a depth of 11,040 feet measured depth. You will notice that the
19 calls on the plat are slightly different than the last directional survey. That is because we
20 interpolated to the base of the pay in the well.

21 Q. Is that a normal procedure that you interpolate the true bottom hole from the last
22 measured depth in that gyroscope?

23 A. Yes it is.

24 Q. That is standard industry practice, is it not?

25 A. It is, yes.

26 CHAIRMAN GRIGGS: Mr. Watson, we will admit the amended affidavit of Mr. Elgin
27 together with the attachments that are labeled Exhibit 1 and Exhibit 2.

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1 (Whereupon, the affidavit with attached exhibits
2 was received in evidence)

3 Q. Mr. Elgin, would the granting of this petition approving this exceptional location for the
4 Cedar Creek Land & Timber 9-12 well prevent waste and protect correlative rights?

5 A. It will.

6 MR. WATSON: That's all I have, Mr. Chairman, unless you have other questions of Mr.
7 Elgin.

8 CHAIRMAN GRIGGS: Dr. Tew, do you or the staff have any questions?

9 DR. TEW: No sir, I don't.

10 CHAIRMAN GRIGGS: No questions by the staff. Mr. Pearson, do you have a question?

11 JERRY ELGIN

12 EXAMINATION BY BOARD/STAFF

13 Questions by Mr. Pearson:

14 Q. Mr. Elgin, could you talk just a little bit about the northwest quarter of Section 9? Are
15 there any plans to drill on the Northwest Quarter of Section 9?

16 A. Yes sir. We have just this week staked locations in the northwest and the northeast of
17 Section 9.

18 Q. Do I understand from that response that Midroc owns or controls leasehold interest in the
19 Northwest Quarter of Section 9?

20 A. We do, yes sir.

21 Q. So Midroc itself would be the offsetting owner in the direction to which the drift has
22 occurred?

23 A. That is correct. Sklar Exploration also owns some acreage in there but they have been
24 noticed.

25 Q. The have been noticed haven't they, Mr. Watson?

26 CHAIRMAN GRIGGS: Any further questions of the staff or the Board? No further
27 questions. I entertain a motion on Item 16.

28 MRS. PRITCHETT: Mr. Chairman, I move that the petition be granted.

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1 MR. PEARSON: Second.

2 CHAIRMAN GRIGGS: We have a motion and a second. All in favor say "aye."

3 (All Board members voted "aye")

4 CHAIRMAN GRIGGS: Item No. 16, Docket No. 11-4-08-10, is granted.

5 MR. WATSON: Thank you sir.

6 CHAIRMAN GRIGGS: Mr. Rogers.

7 MR. ROGERS: The next item is Item 18, Docket No. 11-4-08-12, petition by Delphi Oil,
8 Inc.

9 CHAIRMAN GRIGGS: Mr. Watson, before we hear this item a couple of the Board
10 members had some questions to ask you about this item.

11 MR. PEARSON: Mr. Watson, before we actually decide to hear this matter today we had
12 a couple of preliminary questions. Could you on behalf of Delphi explain as best you know
13 whether there was any production from the prior units after the lease with the State of Alabama
14 expired?

15 MR. WATSON: Yes I can answer that as to when the lease from the State of Alabama
16 expired. I would have to ask my witness that question.

17 MR. PEARSON: What I am getting at is I'm not limiting it to production while Delphi
18 has been in control of operatorship of the well. Has there been any production at any point-in-
19 time, if you know, after the state lease expired?

20 MR. WATSON: First of all, Delphi has not produced anything from this well. The
21 application here today is to force pool an interest that the state has that I will describe to you, .53
22 acres, so that we can attempt to produce it. The well is not currently producing. They are going
23 to have to install a pump jack on the well to get a water block, if you will, out of the well. The
24 operation of the well prior to Delphi acquiring it, the well was operated by Canecutter and they
25 took over operations according to the Board's records January 10, 2001. I do understand that
26 there has been production since January 10, 2001. I understand that that production ceased in
27 2007. The Board's records would be the best indication of that. I'm going just from memory
28 and from my conversations with representatives of the State Lands Division. As to how much

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1 has been produced, I do not know. Mr. Powell, do you know when the state lease would have
2 expired that covered this. Just tell me.

3 CHAIRMAN GRIGGS: Mr. Watson, we are not going to hear it at this point.

4 MR. WATSON: I can't answer the question as to when the state lease expired.

5 MR. PEARSON: At this point if we were to go forward today you are not yet prepared
6 to discuss the expiration of the State of Alabama lease. Is that right?

7 MR. WATSON: No sir other than to tell you that we know that they don't have a lease
8 on it, that we don't have a lease on it.

9 MR. PEARSON: In reviewing the force pooling statute we have some concerns over the
10 application of an after-the-fact force pooling order specifically with respect to what we
11 understand to be the interest in question that is outstanding which is the State of Alabama. Are
12 you prepared today or is Delphi prepared today to provide some type of accounting of the
13 production that occurred on this well?

14 MR. WATSON: No sir, nothing other than what you would have.

15 MR. PEARSON: Production volumes?

16 MR. WATSON: Nothing other than what you would have in your records. Delphi has
17 had no connection with production prior to today and the force pooling that we are asking you to
18 do is prospective not retroactive.

19 MR. PEARSON: Those are the issues that we are having some troubles with in looking
20 at the statute, force pooling statute. Let me just say for the record that we applaud Delphi that
21 has apparently discovered an issue and is coming forward in a forthright way to address that
22 issue. Our concerns have nothing to do with that. It has to do with whether or not Delphi is
23 prepared to present enough factual information for the Board to address these issues we have
24 with the force pooling statute, namely it appears the language of the force pooling statute would
25 make whoever the petitioner is responsible for the accounting to the force pooled interest of
26 production allocated to that tract's interests.

27 MR. WATSON: Prior to their taking over?

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1 MR. PEARSON: The statute has no limitation that we see; however, we are looking for
2 some guidance on that point and perhaps in the way of both factually and legally. We might
3 need some brief from you on that question as to whether the current petitioner, if the Board sees
4 fit to grant the force pooling petition, whether the current petitioner would or would not be liable
5 for accounting to the force pooled interest for production as allocated to the tracts and interests
6 being force pooled. That's one of the issues we are concerned about and would like some type
7 of presentation on and some guidance on. Secondly, we would like some information on the
8 accounting in relation to the expiration date or not of the state lease, if that is the interest being
9 force pooled or sought to be force pooled. If you are not prepared to go forward with that I think
10 that my recommendation would be that we continue the matter until we have information along
11 those lines.

12 MR. WATSON: Well, you are penalizing this company who brought this to not only
13 your attention but to the State Land Division's attention because this well apparently had fallen
14 off the tract somewhere down the line and through our diligent efforts of checking the title before
15 we just came in and like the prior operator took over operations, we brought this to the Board's
16 attention. It will throw the plans of Delphi off schedule. They had planned to go ahead and
17 install this pump jack. I'm told by Mr. Powell this morning that they have been bumping him on
18 a daily basis trying to get everything squared away so they could do that. Had I known this, that
19 you were going to require this operator to do this--my conversations last night with Mr. Brantley
20 at State Lands, I made the contact on his behalf and found out who he could talk to at Canecutter.
21 He had a conversation with those people and asked for the very information that you are asking
22 me for this morning. I can do what I can to get it but again it penalizes Delphi to have to account
23 for what Canecutter did. I understand what you are saying under the statute.

24 MR. PEARSON: I guess from this discussion I pretty much know the answer to the
25 question I'm about to ask. Is Delphi prepared here today to voluntarily say, if the Board was
26 inclined to grant the force pooling petition in favor of Delphi, is Delphi prepared to say it would
27 be responsible for accounting to the force pooled interest for prior production?

28 MR. WATSON: No sir because I don't have that.

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1 CHAIRMAN GRIGGS: Dr. Tew.

2 DR. TEW: Mr. Chairman, I would like to say that we do not have anything from the
3 State Lands Division, Department of Conservation at this point stating their position on this
4 matter.

5 MR. WATSON: For the record, I know that the Board's staff has asked for that and so
6 have we. This didn't just pop up yesterday. We have tried to get some information but
7 yesterday when I was asked the same question you are asking me today, I did find out from
8 Delphi who their contact was with Canecutter, a Mr. Gillespie. I gave that information to Mr.
9 Brantley and he made contact with him. That's all I could do on behalf of Delphi. We will do
10 whatever we can to try to get that information but certainly I'm not prepared to give that to you
11 today and I don't think we are authorized to say that we would agree to be responsible for
12 something prior to our operation.

13 MRS. PRITCHETT: Mr. Watson, when was the State Lands Division first given notice
14 of this matter?

15 MR. WATSON: On the date that I prefiled my notice of application, October 20th,
16 maybe prior to that date actually. Mr. Powell has been talking to them but that's when I sent out
17 my required notice for this hearing today. Rest assure that we will do everything we can to
18 address the questions that you have raised this morning. It is just that I was not prepared to do
19 that today.

20 MR. PEARSON: I understand, Mr. Watson. My concerns are independent of who owns
21 the interest that is being force pooled.

22 MR. WATSON: I understand.

23 MR. PEARSON: We, of course, have run into this once or twice already in our new
24 tenure of an after-the-fact force pooling. In at least the last case I know that the petitioner agreed
25 to make the force pooled interest hold even though it was an after-the-fact force pooling, so we
26 never had to cross this bridge. We need some guidance, both legally and factually, from the
27 petitioner before we are prepared to actually go forward with a hearing to reach a resolution on
28 the petition is all I'm saying.

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1 MR. WATSON: Can you give me just a minute to hear what Mr. Powell has to say to
2 me? I was just informed that the prior operator before Canecutter, BTA, was preparing to plug
3 this well apparently. The well was not doing well and then Canecutter came in in 2001 but
4 beyond that I don't know anything else about the well. I don't know whether we are talking a lot
5 of production or a little production. The Board's records would be the best indicator of that. I
6 just don't have any idea.

7 MR. PEARSON: That, of course, would be another way around this if it was a very
8 small amount and Delphi was prepared to accept responsibility no matter what for it, then we
9 would be able to proceed at this point.

10 MR. WATSON: I should point this out and then I'll be quiet. There are several wells in
11 this North Excel Field area that Delphi plans to try to get back on production. This is just one
12 cog in here. There is a resurgence here of an effort to produce wells in this North Excel Field
13 and this is just one of the wells.

14 CHAIRMAN GRIGGS: Mr. Watson, I would echo Mr. Pearson in that we applaud
15 Delphi as willing to come in and hopefully restore production from some of these wells. I would
16 let the record reflect that since the State of Alabama has an interest in this and as I am currently
17 the State Lands Director I have not participated and I am not aware of the details of this
18 situation. When it is heard obviously I will not vote if I am still employed by the State Lands
19 Division. There are a number of issues that are unclear and we don't expect you to provide those
20 answers because frankly we don't think you have those answers at hand but it is important that
21 this Board have the answers to some of those issues and for that reason as Chairman I'm going to
22 continue this petition until the December meeting. I regret that you had your witness here today
23 but apparently this has developed on short notice. I would apologize for any inconvenience to
24 your witness but we will continue this item until the next Board meeting.

25 MR. WATSON: All right sir.

26 CHAIRMAN GRIGGS: Next item, Mr. Rogers.

27 MR. ROGERS: The next item is Item 21, Docket No. 11-4-08-15, petition by Black
28 Warrior Methane Corporation.

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1 MR. WATSON: I have one witness and would like to have him sworn in, please.

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

3 MR. HUTCHENS: Eric Hutchens, McCalla, Alabama.

4 (Witness was sworn by Mr. Rogers)

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

7 CHAIRMAN GRIGGS: It is admitted, Mr. Watson.

8 (Whereupon, the affidavit was received in evidence)

9 MR. WATSON: This is a request by Black Warrior Methane Corporation asking the
10 Board to enter an order approving an open hole completion for the Belcher 33-06-556 well
11 located on a 40-acre unit consisting of the Southeast Quarter of the Northwest Quarter of Section
12 33, Township 20 South, Range 7 West, Tuscaloosa County, Alabama, in the Brookwood Coal
13 Degasification Field. My witness is Eric Hutchens. Mr. Hutchens, are you familiar with this
14 petition relative to the Belcher well and the completion of this well?

15 MR. HUTCHENS: Yes I am.

16 MR. WATSON: Have you prepared exhibits in support of this request?

17 MR. HUTCHENS: Yes I have.

18 MR. WATSON: I tender Mr. Hutchens as an expert witness and would remind the Board
19 that he has on file an affidavit of his qualifications.

20 CHAIRMAN GRIGGS: Mr. Watson, what type expert is Mr. Hutchens?

21 MR. WATSON: Mr. Hutchens is the Field Operations Superintendent for Black Warrior
22 Methane.

23 CHAIRMAN GRIGGS: Thank you sir. He is so recognized.

24 ERIC HUTCHENS

25 Appearing as a witness on behalf of Petitioner, Black Warrior Methane Corporation,
26 testified as follows:

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DIRECT EXAMINATION

Questions by Mr. Watson:

1
2
3 Q. Mr. Hutchens, take Exhibit No. 1, the surveyor's plat, and describe the information
4 shown on that plat, please?

5 A. This is a location plat for a drilling application for the 33-06-556. What is shown in red
6 is the 33-06-566 location as being the Southeast Quarter of the Northwest Quarter of
7 Section 33, Township 20 South, Range 7 West.

8 Q. The second exhibit, please, Exhibit No. 2.

9 A. Exhibit No. 2 is an open hole log of the said well. It shows the three coal groups that we
10 typically complete. It has the Pratt, the Mary Lee and Black Creek Coal groups.

11 Q. Exhibit No. 3.

12 A. Exhibit No. 3 is the surface casing test chart where we test surface casing after it has been
13 drilled through the ground water's plot of 300 plus foot, pressure up the surface casing at
14 300 pounds for 30 minutes.

15 Q. All right sir. Exhibit No. 4 comes to the heart of this issue. This is the Belcher well as it
16 currently exists. Tell us about that and then I want you to describe why we have not
17 completed this well in accordance with Rule 5 of the Special Field Rules for the
18 Brookwood Coal Degasification Field.

19 A. This is a wellbore schematic that shows the current configuration of the well. The well
20 shows a total depth of 2,776. The current casing that is in the well is 5 ½-inch casing to
21 360 foot after the surface casing had been set.

22 Q. All right sir. Tell us why you couldn't go ahead and set the additional casing that is
23 required by Rule 5 of the Special Field Rules at the Brookwood Coal Degasification
24 Field.

25 A. On this particular well we had a lot of trouble drilling the well to total depth. In drilling
26 the well we experienced a lot of water production. It took a couple of extra days to get
27 the well to TD. Once we drilled the well to TD and started tripping out with the drill pipe
28 and shut down the air compressors on the drilling rig we realized that the well was

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1 making a large amount of gas. We had experienced a similar situation on an offset well
2 last year, almost exactly like this well. In that case the Board requested that we set the 5
3 ½-inch production casing through the surface pipe, so we went ahead when we were
4 working on this well and petitioned the Board to ask for a waiver of this requirement and
5 actually set this well up the same way we did previously on the well from last year.

6 Q. Is it fair to say that because of the high volumes of gas that were coming out before you
7 ran this pipe in the ground, the casing in accordance with Rule 5, that it would have been
8 somewhat dangerous to try to run that casing in this hole?

9 A. Yes. We were concerned because of the large amount of gas and water that we would
10 have a problem displacing that water if we ran a full stream of casing into the hole.
11 Typically the hydrostatic head off the water will hold the gas in place. If we ran a full
12 string of casing it would displace some of that water and you would probably get some of
13 the gas back. We wanted to pull the gas off slowly to allow a more complete
14 development of the well like we typically do.

15 Q. After you pull this water off slowly and let the gas come out slowly rather than a lot of it
16 at one time, is it Black Warrior's plans to go in and complete this well in accordance with
17 Rule 5 of the Special Field Rules?

18 A. That is correct.

19 Q. In other words, you would have men and equipment on the surface of this well trying to
20 run this casing in the hole and complete the well while there is a large amount of gas
21 coming out because the water is brought out at the same time. Is that a fair statement?

22 A. Yes. That is the potential.

23 Q. Do you have any idea how long this well will need to stay in its current state before you
24 can complete it in accordance with Rule 5?

25 A. We can only use the well that we completed last year in this similar manner and we
26 produced that well for approximately nine months until we went back in and were able to
27 run casing on it and complete it and actually frac the zones like we normally would.

28 Q. That well is still producing?

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1 A. Yes it is.

2 Q. That would be your plans for this well?

3 A. Yes it is.

4 Q. If the Board grants this exception.

5 A. That's correct.

6 MR. WATSON: I would ask that you receive into the record Exhibits 1 through 4 to the
7 testimony of Mr. Hutchens.

8 CHAIRMAN GRIGGS: They are admitted into evidence and incorporated into the
9 record.

10 (Whereupon, the exhibits were received in evidence)

11 Q. Mr. Hutchens, would the granting of this exception to Rule 5 for the Belcher 33-06-556
12 well prevent waste, protect correlative rights and avoid the drilling of any unnecessary
13 wells?

14 A. Yes I feel it would.

15 MR. WATSON: I tender him to the Board and staff for any questions you have, Mr.
16 Chairman.

17 CHAIRMAN GRIGGS: Dr. Tew, do you have any questions? Does the staff have any
18 questions?

19 DR. TEW: We have one from Mr. Gregory.

20 ERIC HUTCHENS

21 EXAMINATION BY BOARD/STAFF

22 Questions by Mr. Gregory:

23 Q. Mr. Hutchens, you testified to this but I just wanted to clarify. Your exhibit says that you
24 have 8 5/8-inch casing set at 360?

25 A. That actually is a typo. It actually is 5 1/2-inch production casing to 360 foot.

26 Q. Also, would the completion in this manner protect groundwater resources and provide for
27 a safe operation of the well?

28 A. Yes I feel it would.

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1 MR. GREGORY: Thank you.

2 CHAIRMAN GRIGGS: Mr. Watson, do you want to amend that exhibit and submit it?

3 MR. WATSON: Yes sir, if I could correct that.

4 MR. ROGERS: These exhibits are not signed, if he could sign them.

5 MR. WATSON: We are correcting Exhibit No. 4 where the casing is shown to be 8 5/8.

6 It is actually 5 1/2-inch casing down to 360 feet. Is that correct, Mr. Hutchens?

7 MR. HUTCHENS: That is correct.

8 MR. WATSON: I would so amend my exhibit to that effect.

9 CHAIRMAN GRIGGS: Your amended and signed exhibit is admitted into the record.

10 (Whereupon, the amended exhibit was received in evidence)

11 MR. WATSON: That's all we have.

12 CHAIRMAN GRIGGS: Any further questions from the staff? Any questions from the
13 Board members? A motion on Item No. 21.

14 MRS. PRITCHETT: Mr. Chairman, I move that the petition be granted.

15 MR. PEARSON: Second.

16 CHAIRMAN GRIGGS: A motion by Mrs. Pritchett and a second by Mr. Pearson. All in
17 favor say "aye."

18 (All Board members voted "aye")

19 CHAIRMAN GRIGGS: "Ayes" have it. Item 21 is granted.

20 MR. WATSON: Thank you.

21 CHAIRMAN GRIGGS: Mr. Rogers, call the next item.

22 MR. ROGERS: The last item is Item 23, Docket No. 8-26-08-25, a Motion by the State
23 Oil and Gas Board requesting operator Daybreak Oil and Gas, Inc. to show cause why certain
24 abandoned wells located in the Gilbertown Field in Choctaw County, Alabama, should not be
25 ordered plugged and abandoned in accordance with Rule 400-1-4-.14 of the State Oil and Gas
26 Board of Alabama Administrative Code relating to plugging and abandonment of wells and the
27 well sites and associated tank battery sites restored in accordance with Rule 400-1-4-.16 of the

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1 State Oil and Gas Board of Alabama Administrative Code relating to restoration of location. Mr.
2 Chairman, this item was heard at the August 28th hearing and was continued to this date.

3 CHAIRMAN GRIGGS: Would you identify yourself for the record, sir?

4 MR. ANDERSON: Yes. My name is Bennett Anderson and I am the Chief Operating
5 Officer for Daybreak Oil and Gas.

6 CHAIRMAN GRIGGS: Okay Mr. Anderson. Can you address this Board motion?

7 MR. ANDERSON: Yes we can. I have brought with me Bobby Greer who is our
8 director of field operations. What we would like to do is report on what we have done in the last
9 two months regarding items on the list and then state our plan that we have created with our
10 company and our partners in the field for other items on this list. I'll let Bobby give the report of
11 what we have done in the last two months.

12 CHAIRMAN GRIGGS: Mr. Anderson, could I ask both of you to stand and be sworn.

13 MR. ROGERS: Will you gentlemen state your names and addresses?

14 MR. ANDERSON: Bennett Anderson, Daybreak Oil and Gas, Orem, Utah, 1023 East
15 760 South.

16 MR. GREER: Bobby Ray Greer, Columbia, Mississippi, 84 Delancy Robbins Road,
17 39429.

18 (Witnesses were sworn by Mr. Rogers)

19 CHAIRMAN GRIGGS: Mr. Anderson, you had indicated that you wanted Mr. Greer to
20 present testimony?

21 MR. ANDERSON: Yes that's right.

22 CHAIRMAN GRIGGS: Mr. Greer.

23 MR. GREER: The wells that are on the list, we have plugged the F. A. Adams et al No.
24 1. We have restored the Cooper Wigham No. 1 tank battery. Some of these other wells, we've
25 got a list of things that we are going to be doing. The next one on this docket would be the Rex
26 Alman No. 4. We've got several workovers planned and also a drilling planned in the
27 Gilbertown Field. Some of the wells that we intend to go into are not on this list but we are
28 trying to get our production up and take care of the state's request on these other wells. Like I

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1 say, the second go round for our workovers probably has three more of these wells that are on
2 the docket to be restored back to production.

3 MR. ANDERSON: Let me just state that we have met with our partners. We had a
4 partner meeting in Houston two weeks ago where we led the discussion as to how we can
5 proceed with these wellbores and recoup oil where it makes sense to. Obviously, the F.A.
6 Adams which we plugged, we didn't believe there were any reserves there to recover. The
7 partners agreed with us as far as this list is concerned. The next one that they are willing to go
8 with us on is the Rex Alman No. 4. We have committed with them to do that in this current
9 quarter that we are in.

10 MRS. PRITCHETT: When you say do that, do you mean restore it?

11 MR. ANDERSON: We have reserve potential in that wellbore that we believe is
12 economic. We've got a workover planned to spend roughly \$125,000, give or take, to put the
13 tubing back into commission. That needs to be repaired, the damage that was remaining in the
14 wellbore when it went down or was no longer being produced, and put it back on line. We
15 believe the Rex Alman No. 4 will be a good well once we have worked it over. We have the
16 funds set aside now and have a written plan on how to do that. We will be submitting that when
17 we submit the permit for the workover. We believe it will be a good well when we are done.

18 CHAIRMAN GRIGGS: Mr. Anderson, at the risk of being redundant on some of these
19 wells, could I hand you a copy of the notice that was published, the docket that lists the number
20 of wells, if you don't have that. Could I ask you or Mr. Greer to address each of those wells
21 individually as far as your plan?

22 MR. GREER: The wells that are on the docket?

23 CHAIRMAN GRIGGS: Yes.

24 MR. GREER: We have that.

25 CHAIRMAN GRIGGS: Could I ask you just to go down that list and reference it by the
26 permit number or the well name and tell this Board exactly what the plans are for each individual
27 one.

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1 MR. ANDERSON: Maybe we can do it briefly. If you want to go deeper into more
2 detail we can---

3 CHAIRMAN GRIGGS: If you will but I will ask you to address each item separately,
4 what you plan to do and when you plan to do it, if you know when you plan to do it.

5 MR. ANDERSON: Okay.

6 CHAIRMAN GRIGGS: That would help us.

7 MR. GREER: Permit No. 190, the A.M. Mosley No. 1, I'm not going to go into how
8 many barrels we are showing. We want to squeeze it, not squeeze it but we want to put it back
9 on production.

10 CHAIRMAN GRIGGS: What is the immediate plan, Mr. Greer, and when? We want
11 every well in Alabama back on production.

12 MR. GREER: Right. Most of the wells that we have here on this list can be put back
13 into production.

14 CHAIRMAN GRIGGS: Specifically with regard to that well.

15 MR. GREER: The time period that we are looking at that we discussed a week or so ago,
16 we've got four workovers planned for the next three months for Daybreak. We are going to try
17 to do those. One of those is on this list, the Rex Alman No. 4. That would be the first one. At
18 that time we will come back and look at what these wells have done and then we will make
19 another list. That list has already been prepared.

20 CHAIRMAN GRIGGS: This A.M. Mosley No. 1 is not one of those four, is it?

21 MR. GREER: Not on the first four. It is not. The Rex Alman No. 4 is, Permit No. 1367.

22 CHAIRMAN GRIGGS: If you will, go down the list though. It confuses us when we
23 jump about.

24 MR. GREER: Are you ready for the Leo Stewart?

25 CHAIRMAN GRIGGS: Yes sir.

26 MR. GREER: Permit No. 1052, the Leo Stewart, it also has potential in the Eutaw
27 formation and in the Selma chalk.

28 CHAIRMAN GRIGGS: Excuse me. Potential for what?

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1 MR. GREER: Production.

2 CHAIRMAN GRIGGS: Bear with me here. You haven't told us much of anything if
3 you say potential. What is the plan on that?

4 MR. GREER: To put the Leo Stewart back on production.

5 CHAIRMAN GRIGGS: When?

6 MR. GREER: Don't know the answer to that question.

7 CHAIRMAN GRIGGS: This decade, this year? I'm not being factious, just realistic.

8 MR. GREER: We are trying to do all this stuff in a year.

9 CHAIRMAN GRIGGS: Okay. That's the kind of testimony I need to hear.

10 MR. GREER: Okay. We've got these four to do and we are trying to do those within the
11 three month period and then we are going to try to do another four or five depending on our
12 investors, trying to get AFE's out and get everything approved.

13 CHAIRMAN GRIGGS: Don't let me provide testimony for you but as I read it the Leo
14 Stewart, the 1052, has potential to produce oil or gas and you hope to bring that well back on
15 within a year. Is that correct?

16 MR. GREER: That's the way I understand it.

17 MR. ANDERSON: Yes.

18 CHAIRMAN GRIGGS: Okay. Is that also the case to the A.M. Mosley No. 1, that it has
19 potential and you hope to produce it within a year?

20 MR. GREER: That's right.

21 CHAIRMAN GRIGGS: Okay, if you will proceed to the third one, the 3102, the Stewart
22 3-9.

23 MR. GREER: Permit No. 3102, the Stewart 309, we are going to try to produce it also,
24 go into it and test the Selma chalk. If it doesn't produce in the Selma chalk we will plug that
25 well.

26 CHAIRMAN GRIGGS: In what time frame?

27 MR. GREER: All of these would be in the year that I'm talking about for now, this
28 whole list. Permit No. 3094, the Long 5-5, has potential, a very slight potential, it and the

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1 Kingree 5-12, Permit No. 4231. They are out on the west side together. Daybreak is currently
2 asking a smaller operator if he would be interested in taking over those wells but we have not got
3 a response from that yet and also the Carolyn Moseley tank battery.

4 MR. ANDERSON: Can I just make a comment on there? On Permit No. 3094 and 4231,
5 part of the issue that we are working through there is because the wells haven't been produced
6 the potential operator wants to make sure that the lease issues are resolved. We have partnership
7 with some land people who are going to go ahead and prepare current leases so that the operator
8 isn't at risk in trying to come in and take over those wells and try to use an argument of being
9 held by production when that really isn't the case. If they did try to use that case they would be
10 at risk, so we are investing in the property for them and taking care of the lease issues at which
11 point, if they agree, if we do that much then they can take them over and produce them where
12 they believe they can do it economically. Obviously, we can't see how we could do it unless the
13 price of oil was much higher for what our costs would be to do it. We are in the middle of trying
14 to resolve those lease issues and form that negotiation.

15 CHAIRMAN GRIGGS: Are they currently working on those lease issues?

16 MR. ANDERSON: Yes and that was part of our meeting two weeks ago in Houston.
17 A.W. Greer and Clayton Gatlin who are partners on the property, landmen, committed to go
18 ahead and use their efforts to work out lease issues on that property so that we can form a
19 partnership with the new potential operator of those wells.

20 CHAIRMAN GRIGGS: Mr. Pearson.

21 MR. PEARSON: Again, emphasizing the Chairman's question, how long do you
22 anticipate that it will take to obtain whatever number of new leases you need to obtain?

23 MR. ANDERSON: You know, I'm not an expert in acquiring leases. I mean, it is an
24 older field and people in the area know that it is kind of a requisite before they can get royalties
25 so I wouldn't think it would take too long as long as people are willing to have the wells
26 produced.

27 MR. PEARSON: What is your best estimate as the two of you are sitting here as to how
28 long it will take to get those leases obtained?

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1 MR. GREER: I would say that within two or three months we should have the majority
2 of them.

3 MR. PEARSON: Do I take the testimony on the lease question to mean that you cannot
4 produce those wells currently because you don't have all the leases in place?

5 MR. GREER: That's correct.

6 MR. ANDERSON: You could go back and look at production records and make an
7 argument that they have been held by production but it would be iffy to go and do that because it
8 has been a long time since they have really been produced economically. We don't feel that it
9 would be a wise decision for someone to come in and assume that the leases are still good if they
10 have a plan to produce these for several years. If they make a fair amount of oil and someone
11 comes back and asked a question about a lease later, you know, it could be in a rock and a hard
12 place, so the operator's concern here is one that we believe in and that is why we committed to
13 step up and try to make sure the leases are cured prior to the transaction.

14 CHAIRMAN GRIGGS: That is ongoing? You have a contract with these land people to
15 attempt to get them?

16 MR. ANDERSON: Yes, essentially a partnership with them. I mean, they are 75
17 percent---

18 CHAIRMAN GRIGGS: Okay, we don't need the details. I just need to know that you
19 do have an agreement with them and they are working to get the leases on this area. Mr. Greer,
20 would you like to continue down the list?

21 MR. GREER: Permit No. 271, the F.A. Adams, is plugged and abandoned. Permit No.
22 258 TB, the Cooper Wigham No. 1, has been restored. Permit No. 3469, the Smith Trice 34-10,
23 we just operate that well periodically to hold the leases. I have not completed the analysis on it
24 yet.

25 MR. PEARSON: Can I ask you what you mean by operating the well periodically?

26 MR. GREER: We produce it. We are holding the leases.

27 MR. PEARSON: What does it produce?

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1 MR. GREER: When we produce it it will make about three or four barrels and maybe
2 100 barrels or so of water.

3 MR. PEARSON: Do you make any type of economic profit margin on that production?

4 MR. GREER: No, not at that rate.

5 MR. PEARSON: Please proceed.

6 MR. GREER: Permit No. 3096, Steve Scruggs 32-10, I have not completed the
7 geological analysis on it. Do you want to say anything about the Steve Scruggs well?

8 CHAIRMAN GRIGGS: Where are you on your economic analysis?

9 MR. GREER: It would take me approximately a week to do these two wells.

10 MR. ANDERSON: There are other issues surrounding this particular wellbore. It's
11 embarrassing for me to talk about because the well essentially isn't in our field. When we took
12 over operations in June somehow it slipped through the cracks and it was put on our list of wells
13 to operate. It is not our well. We got a notice recently from the landowner asking us not to go
14 on his land and check on the well. We got to digging around and learning about the well and it
15 turns out that Tecton Energy holds the lease for all the property and that the wellbore up until
16 2002 was operated and owned by the previous owners of the field that we are now operating. In
17 2002 the landowner essentially had a legal issue with them and the landowner received a
18 payment, roughly equal to what it would cost to plug and abandoned the well, and also forced the
19 then operators and owners to plug the associated saltwater well with this well and then transfer
20 all rights and ownership to the wellbore and all the equipment around it to the landowner. I got a
21 copy of that agreement dated 2002 and read that over. The landowner now has all rights to all
22 the equipment and everything to do with the well. We then went to look at the leases to see, you
23 know, we are the operator, do we have a lease on it or did we have a lease on it that is expired
24 because it wasn't held by production. It turns out that Tecton Energy holds the lease on the
25 property. I felt pretty stupid that back in June a year ago we let this one slip on the list of wells
26 that we took over operatorship for when we don't have a relationship with the landowner or the
27 wellbore or the lease, either one, so I subsequently contacted Tecton.

28 MRS. PRITCHETT: Mr. Anderson, you are the operator of record. Is that correct?

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1 MR. ANDERSON: We are the operator of record on that well. It was so weird. I tried
2 to piece it together. We don't hold the lease. The landowner received a total release and waiver
3 from the previous owners and a payment in 2002 and didn't want it plugged because, you know,
4 they plugged the saltwater well and cleaned it up and mitigated the wellbore site and would have
5 plugged this well back in 2002. They gave him \$34,000 that would have essentially gone to do
6 that at some point but the landowner wanted to keep the wellbore open because when it went
7 down it was producing 20 barrels a day with the associated saltwater and the landowner wanted
8 to be able to produce it at some point.

9 MR. PEARSON: What are your plans for this well that you have just described that the
10 landowner owns the wellbore and the equipment and some other entity owns, Tecton---

11 MR. ANDERSON: After finding all this out I wondered as the operator what rights and
12 what responsibilities I have because originally when we first looked at it, the 20 barrels of oil per
13 day, it would have been an easy well to make an argument for that it would be worth going back
14 into the wellbore and putting in new tubing and whatnot and putting it back in production. You
15 go back a year ago and it was on our plan to do that.

16 MR. PEARSON: Who is the landowner?

17 MR. ANDERSON: William Utsey.

18 MRS. PRITCHETT: Mr. Anderson, who is the landowner of record?

19 MR. ANDERSON: William Utsey. After I learned this situation I was scratching my
20 head as to what we do once we found out we didn't have the lease. I couldn't even go pursue a
21 relationship with the landowner with some sort of agreement to put it back into production. I
22 then learned about the saltwater well that had been plugged, so you didn't have a real easy way
23 of putting it back in production either. I contacted Tecton Energy who holds the lease. They
24 actually have permitted a well to drill just a stone's throw from this well. I asked them about
25 their plans there and they said they do plan on drilling at some point but they were pretty focused
26 on a field up in North Dakota at the moment. They were not going to drill it in the next quarter.
27 I then told them about the wellbore that we were the operator of record of and he just kind of
28 laughed at me and said that was an interesting situation. I said maybe we can get together and

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1 talk about this. This was three weeks ago, a week before the Houston meeting that we had with
2 our investors. At that time he said maybe we can work something out between us and I said that
3 it would probably clear things up for me, that I do think it would be productive if you either put
4 the saltwater well back in production or if you are going to drill a saltwater disposal well for the
5 new well that you plan to drill or if you are going to lay a pipeline for saltwater disposal from
6 that new well that you drill, it is not very far to pipe it over to this well. When it went down it
7 was making 20 barrels a day. It is probably worth pursuing if you just want to do a saltwater
8 agreement with me when you put a saltwater disposal system nearby, you know, we can do that
9 route. I would be willing to try to lease the acreage around it with Utsey or if you want me to
10 take over your lease, do that. If you don't want to bother with the well, I can operate the well. I
11 threw these ideas out and he said you know, we're receptive.

12 MR. PEARSON: Let me interrupt you just a second. No matter what your deal you do
13 with Tecton are you telling us that you don't have rights to this wellbore and equipment?

14 MR. ANDERSON: That's right. I have no rights. I read the agreement that William
15 Utsey essentially won as a concession from everyone. He wanted everything named in that
16 agreement to belong to him regarding that well, lock, stock and barrel. They had to repudiate all
17 of their lease rights in that agreement so that when the former partners of the field that we
18 operate let it go it was very clear that they had no rights at that point. The notice that we got was
19 essentially a do not trespass notice which brought my attention to all of these details I have
20 recounted. At this point Tecton has a relationship with Mr. Utsey and Tecton is willing to
21 negotiate. We just haven't had time given their priorities and us trying to understand what a
22 reasonable approach would be to transact anything with them but my pursuit would be to
23 continue to work with Tecton. I think it would make sense for them to produce it.

24 MR. ROGERS: It appears though that once you take over operations of a well even if it
25 was by error or mistake you have that obligation to the State Oil and Gas Board. I just wanted to
26 state that.

27 MR. ANDERSON: That was my assumption all along, that regardless of the
28 incorrectness of the situation, perhaps even unfairness, I have a responsibility and that is why I

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1 feel quite embarrassed to discuss it because it certainly is not a situation that you would
2 responsibly enter into.

3 MR. ROGERS: Let's hope that the leasehold owner and the landowner will work with
4 you.

5 MRS. PRITCHETT: Mr. Anderson, have you discussed with either Tecton or Mr. Utsey
6 transferring this permit to them and making them owner of record, I'm sorry, operator of record?

7 MR. ANDERSON: When I talked to Tecton I told the gentleman there that really that
8 would be my goal. We would have liked to have produced it had it been in our portfolio but it is
9 not in our field and is not adjacent to our saltwater disposal system. I would rather transfer it if I
10 could. Without committing to anything he just said we would love to talk about it, that maybe
11 there are some things that you could do for us and we could do for you. They were very
12 amenable to discussions. That's as far as I got with them.

13 CHAIRMAN GRIGGS: Mr. Anderson, we appreciate your being forthcoming on these
14 sorts of matters. I think you can see that this is the sort of information just straight up that we
15 need in order to try to deal with the thorny issues that we have to deal with as well as what is
16 obviously a thorny issue that you have to deal with. We can only do that by knowing the details.
17 Having said that, Mr. Greer, would you continue down with your testimony regarding Permit No.
18 129?

19 MR. GREER: Permit No. 129, the F.M. Mosley No. 1, is a candidate to be put back on
20 production.

21 CHAIRMAN GRIGGS: Again, within a year?

22 MR. GREER: Yes sir. Permit No. 1367, Rex Alman No. 4, we are putting it back on
23 production. We are going to try to do that within the next three months. Permit No. 113, the
24 Johnson Unit No. 1, is inside the field unit, the unitized part of the field. I am thinking about
25 petitioning to change that to an injection well and possible the E.A. Rentz into an injection.

26 CHAIRMAN GRIGGS: What would be the factor in your making that decision, Mr.
27 Greer?

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1 MR. GREER: The Johnson Unit No. 1 is the choice right now but I would have to go in
2 there and do some injectivity tests on those wells and see which one would be the best and where
3 they are geologically located to get us the best production for secondary recovery.

4 CHAIRMAN GRIGGS: Do you have a time schedule for doing that?

5 MR. GREER: That is in our year thing to do too, one year.

6 MRS. PRITCHETT: Is your testimony that you would choose one or the other to turn
7 into an injection well? What would happen with the other well?

8 MR. GREER: Yes or change both of them to injection. That is what I was getting to.
9 Permit No. 136---

10 MRS. PRITCHETT: You haven't finished No. 113 or 131A.

11 MR. GREER: Those two, maybe both of those to be injection or either an injection and a
12 producer.

13 MRS. PRITCHETT: So, if you do not turn both of them into injection wells you want to
14 turn the other one into a producing well?

15 MR. GREER: Right.

16 MR. ROGERS: Just briefly on that, remember that would be subject to a Unit
17 Agreement approved by the Board. You would need to be sure that you have the authority to do
18 that under the order of the Board before you just proceed. That would be subject to a unitization
19 agreement that this Board approved.

20 MR. GREER: I understand that.

21 CHAIRMAN GRIGGS: Go ahead, Mr. Greer.

22 MR. GREER: Permit No. 136 is an injection well that I would come before the Board to
23 try to make into a producing well. That is the reason I needed another injection well. The
24 Johnson Unit No.1, Permit No. 113, looks like is geologically at the right location for my
25 injection so that I can produce my Johnson 4-7. I do realize that we will have to come before the
26 Board to get approval in that unit.

27 CHAIRMAN GRIGGS: Do you have anything further?

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1 MR. ANDERSON: Just one point to help support our thesis that there is more oil here
2 than maybe what has been thought in the past. As we are doing these workovers and we have
3 four planned for this quarter including Permit No. 1367 on this list, we are going to run the TMD
4 logs, thermal multi-decay logs, to test our engineering study with real data to support what oil we
5 believe is behind pipe and sands that are in wellbores that have yet to be perforated. For
6 example, this Permit No. 136, our theory is that there are actually two sands there that are in a
7 producing area that have not been perforated before. As we go through each of these wellbores
8 we are going to relog them with that TMD log to test what is behind the pipe. We are creating a
9 map from that that we can then with more confidence do more of these workovers at a faster rate,
10 more confident on what the return is going to be. When we run that log we can know exactly
11 where the perforations were done in the past so that if we were expecting that there was a zone
12 that was never perforated but it is in a productive area we will know for sure that it was not
13 perforated. Then we will have our data for what is behind pipe. As we produce these first four
14 workovers and see how they work, according to what that log is predicting and what the results
15 actually are, then we can move through these other wells on this list more quickly and with more
16 confidence in what they are going to produce.

17 CHAIRMAN GRIGGS: Mr. Pearson.

18 MR. PEARSON: These four workovers, you have mentioned those in your testimony
19 once or twice. Can you identify the four wells that you are intending to work over?

20 MR. GREER: I don't have the permit numbers.

21 MR. PEARSON: Just the names of the wells.

22 MR. GREER: The A.M. Mosley No. 3, the E. Abston No. 2, the Rex Alman No. 4 and
23 the F.M. Johnson No. 3.

24 MR. MASINGILL: Mr. Greer, of those wells that you mentioned how many are on this
25 list?

26 MR. GREER: The ones that I just talked about?

27 MR. MASINGILL: Yeah. Just one, right?

28 MR. GREER: Just one.

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1 MR. MASINGILL: What may not be clear to the Board and I just wanted to put in the
2 record, there is a group of other wells that Daybreak operates that were not the subject of this
3 motion because at the time they were on production. What he is talking about on this list is
4 really only one well.

5 CHAIRMAN GRIGGS: We noted that, Mr. Masingill.

6 MR. MASINGILL: Okay.

7 MR. PEARSON: My follow up question is as I understand your testimony today, you
8 met in Houston with your partners a couple of weeks ago and they approved the workovers for
9 all four of these wells?

10 MR. ANDERSON: Yes.

11 MR. PEARSON: Your testimony was also that these four workovers should be
12 completed in three months. Is that right?

13 MR. ANDERSON: Yes.

14 MR. PEARSON: Then your final testimony as to the remainder of the list that we have
15 been going over other than what you have described as a well being plugged and another well
16 being restored, all of the operations that you are considering and proposing are being done within
17 a year and after these four workovers. Have I got it right?

18 MR. ANDERSON: Yes, that's right. We discussed this very list with all the partners in
19 Houston, not only in terms of their economic status but in terms of our responsibilities to
20 perform for the State of Alabama as well as report here today.

21 CHAIRMAN GRIGGS: Dr. Tew, do you have any questions? Mr. Masingill.

22 MR. MASINGILL: Mr. Anderson, these locations for the most part and there are a
23 couple that have been cleaned up are really in a deplorable condition. I assume that you are
24 presently on a clean-up schedule of three a month. Our field agent, Mr. Graham, tells me that
25 you are nearing the process of cleaning up the wells that are not the subject of the motion. Is that
26 correct and when do you expect to finish those?

27 MR. GREER: I didn't understand the question.

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1 MR. MASINGILL: Okay. The wells that are not the subject of this motion, you have
2 been on a clean-up schedule kind of at the field level outside the Board process for a while at
3 three a month. The agent, Mr. Graham, tells me that y'all have done a good job with that and we
4 appreciate that. I was wondering when that process will be through with those wells?

5 MR. GREER: We are going to continue at the same rate until we get all of them and the
6 tank batteries.

7 MR. MASINGILL: Okay. Do you know how many are left?

8 MR. GREER: I'm showing that we have completed eleven. I'm not sure how many
9 wellbores we are presently operating.

10 MR. ANDERSON: We won't be waiting. The clean up-operation is going to be
11 independent of the workovers.

12 MR. MASINGILL: That was kind of what I was leading up to. We expect Daybreak to
13 continue with the clean-up operation and when you finish those wells, this list that we are
14 dealing with on the Board's motion we would like you to continue the clean up at three a month
15 with these wells and tank battery sites that we are dealing with because these are also in poor
16 condition.

17 MR. ANDERSON: We agree. I didn't mean to set the expectation that we are going to
18 do these workovers at a certain rate and that the clean up would wait until we arrived. We feel
19 that the clean up should happen and continue to happen. We are not going to take a break in that,
20 if you will. We are going to keep moving forward on that list independent even of the four
21 workovers that we have planned right now. We will keep doing the clean-up work.

22 MR. MASINGILL: Okay. We appreciate that. One more thing, one of the wells that
23 Mr. Greer mentioned, the last well on the list, the 136 which you see we have former injection
24 well, I know you said it was an injection well. It really is not right now. We wrote a letter to
25 Daybreak dated July 9th that the UIC permit was cancelled June 16, 2008. You in turn wrote a
26 letter, Mr. Anderson, back to Mr. Raymond requesting to continue the permit for the wellbore
27 rather than proceeding with plugging and abandoning it. You have testified that it may have

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1 saltwater disposal potential but for now the permit is cancelled. You would have to go back
2 through an application process in order to put that well back on.

3 MR. ANDERSON: Letting that permit expire was really kind of a decision we made
4 after we did our initial analysis, that it really in our mind has more value as a potential producer
5 now that we have found a sand that has not been produced in a good zone. These other wells
6 could, if we could achieve it, be better suited for injection. We didn't really plan to put that F.M.
7 Johnson back into use as an injection well so we did not reapply. It really didn't make sense to
8 do it when we had already made the determination that really what we wanted to do was to try to
9 produce that one sand that we feel is a good sweet spot for production.

10 MR. MASINGILL: Okay. I would like to put these two letters in the record, just to what
11 you have said and what I have said.

12 CHAIRMAN GRIGGS: We have a letter addressed to Mr. Robert Martin signed by
13 Richard Raymond dated July 9, 2008, on the State Oil and Gas Board letterhead which will be
14 admitted to the record and a letter from Daybreak Oil and Gas dated July 14, 2008, to Mr.
15 Richard Raymond from Mr. Bennett Anderson which will be admitted to the record.

16 (Whereupon, the letters were received in evidence)

17 CHAIRMAN GRIGGS: Do you have any further questions Mr. Masingill?

18 MR. MASINGILL: No sir.

19 CHAIRMAN GRIGGS: I note that it is one minute after 12:00. We are going to take a
20 short recess and we will reconvene at 12:15.

21 (Whereupon, the hearing was recessed until 12:15 p.m.)

22 CHAIRMAN GRIGGS: Let the record reflect that it is 12:15 and the Oil and Gas Board
23 is back in session. Mr. Anderson, first of all I would like to state that it appears that you are
24 making some progress in the issue that is the subject of this docket and we appreciate your
25 willingness to do that. We still have concerns and it is obvious that we all want every well in
26 Alabama that will produce oil or gas to do that. We want to accommodate that to the extent that
27 we can but it is our obligation at the same time to protect the resource, the Alabama resource.
28 This Board has a number of obligations and we are just trying to figure a way to accommodate

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1 additional production and protect the resource at the same time. Having said that Mr. Pearson
2 had indicated that he wanted to make a comment. I will call on Mr. Pearson.

3 MR. PEARSON: Mr. Anderson, could you identify for me one more time the well that
4 has Mr. William Utsey and Tecton in it that we have been discussing?

5 MR. ANDERSON: Yes. That is Permit No. 3096.

6 MR. PEARSON: So this is the Steve Scruggs 32 No. 10 well?

7 MR. ANDERSON: Yes.

8 MRS. PRITCHETT: Let me interrupt if I could, Ward. Mr. Anderson, what are their
9 interests in the property? Can you explain how Tecton is involved and how Mr. Utsey is
10 involved? What are their interests?

11 MR. ANDERSON: Tecton holds the lease around the wellbore. They leased that
12 property from Mr. Utsey.

13 MR. MASINGILL: Do they have the entire unit for the well?

14 MR. ANDERSON: Yeah. The well is completely within that lease.

15 MR. MASINGILL: I mean the 40-acre?

16 MR. ANDERSON: Yeah. The 40-acres associated within their--I believe they have a
17 160 acre lease. That's all that we checked, that they have it and that it is current.

18 MRS. PRITCHETT: Mr. Utsey owns the surface rights, he owns the mineral rights and
19 he has leased those rights to Tecton and Mr. Utsey owns the equipment. Is that correct?

20 MR. ANDERSON: Yes, that's correct.

21 MRS. PRITCHETT: Okay. Thank you.

22 MR. PEARSON: Mr. Anderson, you understand that the Board is looking to you as
23 operator with respect to this well. What we would like you to do is to report back to us as to this
24 particular well by the December Board hearing that you either have cleared this matter up as far
25 as having agreements on the well or we are going to be inclined to order the well plugged at that
26 time. The reason for that is because under the current circumstances all of your future plans for
27 other wells you have the rights to plan that. On this particular wellbore your testimony makes it
28 clear that you have no legal right to proceed with any future plans for re-entering the well or

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1 completing the well. The only thing that you can do is plug the well. Between now and then the
2 Board is going to notify Tecton and also is going to notify Mr. Utsey of the hearing in December
3 as to this matter. Do you understand that?

4 MR. ANDERSON: Yes I do. Would it be possible to give me a little more time to
5 negotiate with Tecton?

6 MR. PEARSON: We want a report back in December. What we intend to do is to give
7 Mr. Utsey and Tecton notice so that they can come in and have their opportunity to say whatever
8 it is that they want to say at that time. We are not in the business of favoring one side or the
9 other on a deal. We want this matter resolved because as it stands now it is in a twilight zone.
10 What we need is something to be resolved and we are hoping that that will be reported back but
11 in any event we will be addressing this matter again on this well after having given them notice
12 to be here in December.

13 CHAIRMAN GRIGGS: Having said that, is there a motion on this item?

14 MRS. PRITCHETT: Mr. Chairman, I move that this matter be continued to the
15 December 11th hearing of the Board.

16 MR. PEARSON: Second.

17 CHAIRMAN GRIGGS: We have a motion and a second to continue. All in favor say
18 "aye."

19 (All Board members voted "aye")

20 CHAIRMAN GRIGGS: "Ayes" have it. This item is continued to the December 11th
21 Board meeting.

22 MR. GREER: Can I ask a question, sir?

23 CHAIRMAN GRIGGS: Yes sir.

24 MR. GREER: That item that you voted on just then, that's just for the Steve Scruggs?
25 That's not this whole list?

26 CHAIRMAN GRIGGS: No sir. The entire list is continued. What we would like to do
27 Mr. Greer, I realize a month is not a long period of time but we would like to see what you have
28 done on these. We will try not to belabor it. We sort of have a baseline for what you plan to do

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1 here but we would like to see what you have done within a one month period. You will know
2 then, for example, some of the status on your leasing activity. You will know some of the status
3 on your evaluations for the utility of these wells. Is there any other matter to come before the
4 Board? Any other business? Do we have a motion to adjourn?

5 MRS. PRITCHETT: So move.

6 MR. PEARSON: Second.

7 CHAIRMAN GRIGGS: We have a motion and a second. The Oil and Gas Board stands
8 adjourned.

9 (Whereupon, the hearing was adjourned at 12:23 p.m.)

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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, November 6, 2008, 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 63 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 or counsel to the parties to said cause, nor in any manner interested in the results thereof.


Rickey Estes
Hearing Reporter