

June 16, 2010

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6/2/2010

MR

June 16, 2010

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Board Exhibit	Proofs of Publication Docket No. 6-16-10-01 Docket No. 6-16-10-02 Docket No. 6-16-10-03 Docket No. 6-16-10-04	12	12
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EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Exhibit 5 (Item 10)	Form OGB-9, Chavers 3-14 #1 Sec. 3, T1N, R8E, Escambia County (Michal Spooner)	19	19
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EXHIBITS

<u>EXHIBIT NO.</u> <u>(ITEM NO.)</u>	<u>TITLE</u> <u>(TESTIMONY OF)</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Exhibit 3	McShan 02-01-01, Flowing tubing graph, Burdine Creek Gas Field (Brett Keener)	22	22
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EXHIBITS
(Incorporated by Reference)

<u>DESCRIPTION</u>	<u>OFFERED</u>	<u>RECEIVED</u>
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June 16, 2010

STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

June 16, 2010

Testimony and proceedings before a Hearing Officer 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 16th day of June, 2010.

BEFORE

Mr. Marvin Rogers..... Attorney

STAFF

Dr. Berry H. (Nick) Tew, Jr. Secretary and Supervisor

Dr. David E. Bolin Deputy Director

Mr. Jay H. Masingill Assistant Supervisor

Mr. Randy Oglesby Geologist

Mr. Kirk McQuillan Geologist

Mr. Butch Gregory Engineer

Mr. Neil Johnston..... Law Clerk

June 16, 2010

APPEARANCES

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NAME	REPRESENTING
1. R.G. Sanders Tuscaloosa, AL	Holland Operating Company, Inc.
2. John Tyra Tuscaloosa, AL	Spooner Petroleum Company, Inc.
3. Harry Spooner Ridgeland, MS	Spooner Petroleum Company, Inc.
4. Michal Spooner Ridgeland, MS	Spooner Petroleum Company, Inc.
5. Mark Scogin Tuscaloosa, AL	Columbia Petroleum, LLC
6. John Haddock Northport, AL	Holland Operating Company, Inc.

(The hearing was convened at 10:00 a.m. on
Wednesday, June 16, 2010, at Tuscaloosa, Alabama.)

MR. ROGERS: This hearing is in session. Dr. Bolin is sitting in today for Dr. Tew. Dr. Bolin, have the items for the June 16 and June 18, 2010, hearing been properly noticed?

DR. BOLIN: The items for the June 16 and June 18, 2010, docket have been properly noticed and the docket is due to be admitted into the record.

AGENDA
STATE OIL AND GAS BOARD OF ALABAMA
BOARD MEETING
JUNE 16 & 18, 2010

The State Oil and Gas Board of Alabama will hold its regular hearing at 10:00 a.m. on Wednesday, June 16, 2010, in the Board Room of the State Oil and Gas Board, Walter B. Jones Hall, University of Alabama Campus, 420 Hackberry Lane, Tuscaloosa, Alabama, and at 10:00 a.m. on Friday, June 18, 2010, at the Five Rivers-Alabama's Delta Resource Center, 30945 Five Rivers Blvd. Spanish Fort, Alabama, to consider among other items the following petition:

1. DOCKET NO. 3-24-09-03

Continued petition by DURANGO OPERATING, LLC, a Mississippi limited liability company, authorized to do business in the State of Alabama, requesting the State Oil and Gas Board to enter an order extending the temporarily abandoned status for the R. E. Loper et al 12-11 #1, Permit # 2885, located in Section 12, Township 1 North, Range 8 East in Pollard Field, Escambia County, Alabama, for a period of one (1) year:

Said well is temporarily abandoned. Petitioner is requesting the Board to classify said well as temporarily abandoned for a period of one (1) year in accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of Alabama Administrative Code because said well has future utility in Durango Operating, LLC's operations in Pollard Field, Escambia County, Alabama and should not be plugged.

2. DOCKET NO. 7-23-09-06B

Continued amended petition by LAND AND NATURAL RESOURCE DEVELOPMENT, INC., an Alabama corporation, requesting the State Oil and Gas Board to enter an order extending the temporarily abandoned status of the Winters 19-4 #1 Well, Permit No. 4765-A-1, located on a 320-acre drilling unit in the Coal Fire Creek Field consisting of the North Half of Section 19, Township 18 South, Range 14 West, Pickens County, Alabama, for one year, in accordance with Rule 400-1-4-.17(1) of the State Oil and Gas Board of Alabama Administrative Code because said well has future utility and should not be plugged.

3. DOCKET NO. 9-8-09-05A

Continued amended petition by HIGHMOUNT BLACK WARRIOR BASIN LLC, a foreign limited liability company, authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board, pursuant to Rule 400-1-4-.17(1) of the State Oil and Gas Board of Alabama Administrative Code, to enter an order extending the temporarily abandoned status for the following wells located in St. Clair County, Alabama, in the Big Canoe Creek Field, for a period of one (1) year:

<u>WELL NAME</u>	<u>PERMIT NO.</u>	<u>LOCATION</u>
Bjornson 32-16-07	14620	S32-T13S-R5E
Sloss, et al 35-13-09	14621	S35-T13S-R4E
West 35-08-05	15268	S35-T13S-R4E.

Petitioner requests that the Board grant a one year extension of the temporarily abandoned status of the referenced wells because said wells have future utility and should not be plugged.

4. DOCKET NO. 10-27-09-02

Continued petition by STETSON PETROLEUM CORP., a foreign corporation, authorized to do and doing business in the State of Alabama, requesting the State Oil and Gas Board of Alabama to enter an order extending the temporarily abandoned status of the Scott Paper Co. 25-14 No. 1 Well, Permit No. 6303, located on a 160-acre unit consisting of the West Half of the Southeast Quarter and the East Half of the Southwest Quarter of Section 25, Township 4 North, Range 7 East, Conecuh County, Alabama in the Northeast Barnett Field, for one year, in accordance with Rule 400-1-4-.17(1) of the State Oil and Gas Board of Alabama Administrative Code. Said Well has future utility to the operations of Stetson Petroleum Corp. and should not be plugged.

1 5. DOCKET NO. 2-9-10-01A

2 Continued amended petition by COLUMBIA PETROLEUM, LLC, a
3 Mississippi limited liability company, authorized to do and doing business in
4 the State of Alabama, requesting the State Oil and Gas Board of Alabama to
5 enter an order force pooling, with the imposition of a risk compensation fee,
6 all tracts and interests in hydrocarbons produced from the Smackover
7 Formation in a well to be drilled on a proposed 160-acre drilling unit
8 consisting of the South Half of the Southeast Quarter of Section 23, and the
9 North Half of the Northeast Quarter of Section 26, all in Township 4 North,
10 Range 12 East, Conecuh County, Alabama, as a productive extension of the
11 Little Cedar Creek Field.
12

13 This petition is filed as a companion petition to the petition bearing Docket
14 No. 2-9-10-02 requesting the approval of a 160-acre drilling unit as a
15 productive extension of the Little Cedar Creek Field.
16

17 6. DOCKET NO. 2-9-10-02A

18 Continued amended petition by COLUMBIA PETROLEUM, LLC, a
19 Mississippi limited liability company, authorized to do and doing business in
20 the State of Alabama, requesting the State Oil and Gas Board of Alabama to
21 enter an order approving a 160-acre drilling unit for the proposed Sanders
22 23-16 Well consisting of the South Half of the Southeast Quarter of Section
23 23, and the North Half of the Northeast Quarter of Section 26, all in
24 Township 4 North, Range 12 East, Conecuh County, Alabama, as a
25 productive extension of the Little Cedar Creek Field, in accordance with
26 Rule 3(a) of the Special Field Rules for said field.
27

28 This petition is filed as a companion petition to the petition bearing Docket
29 No. 2-9-10-01 requesting the force pooling, with the imposition of a risk
30 compensation fee, of all tracts and interests in hydrocarbons produced
31 from the Smackover Formation in the proposed Sanders 23-16 Well.
32

33 7. DOCKET NO. 3-23-10-02A

34 Continued amended petition by SPOONER PETROLEUM COMPANY,
35 INC., a foreign corporation authorized to do and doing business in the
36 State of Alabama, requesting the State Oil and Gas Board of Alabama to
37 enter an Order amending Rules 2 and 3 of the Special Field Rules for the
38 East Lambeth Church Field, Escambia County, Alabama, to add and
39 define the Pilot Sand Oil Pool for said field and to provide for well
40 spacing for the Pilot Sand Oil Pool.

1 Petitioner requests that the Pilot Sand Oil Pool in the East Lambeth Church
2 Field be defined as that interval of the Pilot Sand productive of hydrocarbons
3 between the interval of 6432 feet and 6482 feet MD as indicated on the
4 High Definition Induction Log for the Chavers 3-14 No. 1 Well, Permit
5 No. 16042, and all zones in communication therewith and all productive
6 extensions thereof. Said pool constitutes a separate and distinct oil
7 producing pool in said field, separate and distinct from all other producing
8 pools therein.
9

10 This Petition is filed as a companion to a Petition under Docket No. 3-23-
11 10-03 requesting that the 40-acre drilling unit for the Chavers 3-14 No. 1
12 Well, Permit No. 16042, be reformed to a 120-acre production unit or to a
13 smaller production unit in the event that the Board should determine that
14 the maximum area efficiently and economically drained by the subject
15 well is less than 120 acres.
16

17 8. DOCKET NO. 3-23-10-03A

18 Continued amended petition by SPOONER PETROLEUM COMPANY,
19 INC., a foreign corporation authorized to do and doing business in the
20 State of Alabama, requesting the State Oil and Gas Board of Alabama to
21 enter an Order reforming the 40-acre drilling unit for the Chavers 3-14 No.
22 1 Well, Permit No. 16042, to a 120-acre production unit pursuant to
23 Section 9-17-12(2)(b) of the Code of Alabama (1975), as amended.
24

25 Petitioner requests that the 40-acre drilling unit for said Chavers 3-14 No. 1
26 Well, Permit No. 16042, consisting of the Southeast Quarter of the
27 Southwest Quarter of Section 3, Township 1 North, Range 8 East,
28 Escambia County, Alabama, be reformed to a 120-acre production unit
29 consisting of the South Half of the Southwest Quarter and the Southwest
30 Quarter of the Southeast Quarter of Section 3, Township 1 North, Range 8
31 East, Escambia County, Alabama, in the East Lambeth Church Field. In the
32 alternative, if the Board should determine that a smaller production unit
33 should be approved, Petitioner requests that the Board establish a production
34 unit for said well less than the noted 120 acres, but covering the maximum
35 area which would be efficiently and economically drained by the subject
36 Well.

1 This Petition is filed as a companion to a Petition under Docket No. 3-23-
2 10-02 requesting the Board to amend Rules 2 and 3 of the Special Field
3 Rules of the East Lambeth Church Field to add and define the Pilot Sand
4 Oil Pool for said field and to provide for well spacing for the Pilot Sand
5 Oil Pool.
6

7 9. DOCKET NO. 3-23-10-13

8 Continued petition by SKLAR EXPLORATION COMPANY, LLC, a
9 Louisiana limited liability company authorized to do and doing business in
10 the State of Alabama, requesting the State Oil and Gas Board of Alabama
11 to enter an order amending Rule 1 of the Special Field Rules for the Little
12 Cedar Creek Field to add the following described parcels to the field limits
13 of said field: the Northeast Quarter and the Southeast Quarter of Section
14 33, Township 5 North, Range 13 East, Conecuh County, Alabama. This
15 petition is filed pursuant to Ala. Code Sections 9-17-1, *et seq.* and Rules
16 400-1, *et seq.* of the State Oil and Gas Board of Alabama Administrative
17 Code.
18

19 10. DOCKET NO. 4-28-10-02A

20 Continued amended petition by SPOONER PETROLEUM COMPANY,
21 INC., a foreign corporation authorized to do and doing business in the
22 State of Alabama, requesting the State Oil and Gas Board of Alabama to
23 enter an Order amending Rules 2 and 3 of the Special Field Rules for the
24 East Lambeth Church Field, Escambia County, Alabama, to add and
25 define the Pilot Sand Oil Pool for said field, to provide for well spacing
26 for the Pilot Sand Oil Pool and to approve a permanent production unit for
27 the Chavers 3-14 No. 1 Well.
28

29 Petitioner requests that the Pilot Sand Oil Pool in the East Lambeth Church
30 Field be defined as that interval of the Pilot Sand productive of hydrocarbons
31 between the interval of 6432 feet and 6482 feet MD as indicated on the
32 High Definition Induction Log for the Chavers 3-14 No. 1 Well, Permit
33 No. 16042, and all zones in communication therewith and all productive
34 extensions thereof. Said pool constitutes a separate and distinct oil
35 producing pool in said field, separate and distinct from all other producing
36 pools therein.
37

38 Petitioner requests that well spacing of 40 contiguous surface acres be
39 established for the Pilot Sand Oil Pool in East Lambeth Church Field.

1 Petitioner also requests that the 40-acre drilling unit for the Chavers 3-14
2 No. 1 Well, Permit No. 16042, consisting of the Southeast Quarter of the
3 Southwest Quarter of Section 3, Township 1 North, Range 8 East,
4 Escambia County, Alabama, be approved as the permanent production
5 unit for said well.
6

7 11. DOCKET NO. 6-16-10-01

8 Petition by EXXON MOBIL CORPORATION, a foreign corporation
9 authorized to do and doing business in the State of Alabama, requesting
10 the State Oil and Gas Board to amend Rules 2 and 3 of the Special Field
11 Rules for the South Pelican Island Field, Mobile County, Alabama, to add
12 the Luce Sand Gas Pool, to be construed to mean those strata of the Luce
13 Sand productive of hydrocarbons in the interval between 4,853 feet
14 measured depth (2,327 feet TVDSS) and 4,987 feet measured depth (2,428
15 feet TVDSS) in the State Lease 536 #4 Well, Permit No. 11293-OS-68-B,
16 located on a 1,070-acre unit consisting of portions of Tracts 111 and 112,
17 Mobile County, Alabama, as indicated on the GR/ILD Log of said well, and
18 including those strata productive of hydrocarbons which can be correlated
19 therewith. Petitioner further requests the Board to confirm the 1,070-acre
20 production unit established for the Amos Sand Gas Pool in the South Pelican
21 Island Field by Order No. 98-96 as the production unit for the Luce Sand
22 Gas Pool.
23

24 12. DOCKET NO. 6-16-10-02

25 Petition by EXXON MOBIL CORPORATION, a foreign corporation
26 authorized to do and doing business in the State of Alabama, to comply
27 with Order No. 2009-36, issued by the Board on May 7, 2009, approving
28 the commingling, measurement and allocation procedures of a 4-inch fuel
29 gas bi-directional jumper pipeline to the Onshore Treating Facility return
30 fuel line and the Mary Ann Gas Plant return fuel line, all located in Mobile
31 County, Alabama. Said Order 2009-36 directed Petitioner to address this
32 matter within one (1) year from the date of said Order to provide a status
33 report on the measurement and allocation procedures related to use of said
34 4-inch bi-directional jumper pipeline. During a period from November 3
35 to November 10, 2009, Petitioner did utilize the referenced jumper line
36 and will present the allocations made as a result of said usage.
37

38 13. DOCKET NO. 6-16-10-03

39 Petition by CROSBYS CREEK OIL & GAS, LLC, a foreign limited
40 liability company, authorized to do and doing business in the State of
41 Alabama, requesting the State Oil and Gas Board to enter an order

1 approving the exceptional bottom hole location of the Black Stone 31-9 #1
2 Well, Permit No. 16188, as an exception to Rule 3(b) of the Special Field
3 Rules for the Gin Creek Field. Said well was drilled on a 160-acre unit
4 consisting of the Southeast Quarter of Section 31, Township 10 North,
5 Range 4 West, Choctaw County, Alabama, in the Gin Creek Field, at a
6 surface location 660 feet from the North line and 825 feet from the East
7 line of the 160-acre unit for said well, but said well unintentionally drifted
8 such that the bottom hole location is 486 feet from the North line and 912
9 feet from the East line of said 160-acre unit.

10
11 Rule 3(b) of the Special Field Rules for the Gin Creek Field requires that
12 wells be located at least 660 feet from every exterior boundary of the
13 drilling unit, but the bottom hole location of the referenced well is only
14 486 feet from the North line of said 160-acre unit and, as such, is an
15 exception to said Rule 3(b)
16

17 14. DOCKET NO. 6-16-10-04

18 Petition by SAGA PETROLEUM LIMITED LIABILITY COMPANY OF
19 COLORADO, a foreign limited partnership, authorized to do and doing
20 business in the State of Alabama, requesting the State Oil and Gas Board
21 to enter an order approving exceptions to the Special Field Rules pertaining
22 to bottom hole pressure surveys for the Burdine Creek Gas Field, Pickens
23 County, Alabama, for the McShan 2-1-1, Permit No. 15796, located on a
24 320-acre unit consisting of the East Half of Section 2, Township 19 South,
25 Range 16 West, Pickens County, Alabama. The proposed exceptions would
26 allow annual reservoir pressure surveys to be performed with a calibrated
27 surface gauge.
28

29 15. DOCKET NO. 7-23-09-12

30 Continued MOTION BY THE STATE OIL AND GAS BOARD for
31 Operator Holland Operating Company, Inc., to show cause why the wells
32 located in the Moundville Coal Degasification Field, Hale County,
33 Alabama listed hereinbelow should not be ordered plugged and abandoned
34 in accordance with Rule 400-3-4-.14 of the State Oil and Gas Board of
35 Alabama Administrative Code relating to Plugging and Abandonment of
36 Wells. Further, as a part of this Motion by the Board, the operator shall
37 show cause why equipment, pipelines, and other facilities associated with
38 these wells, including but not limited to natural gas pipelines, compressor
39 stations, "tin" horns, pipeline risers, and water gathering lines should not
40 be removed, cleaned up, or dismantled and all sites restored in accordance
41 with the Board's rules and regulations.

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
14811-C	Tubbs 10-5	Sec. 10, Township 23 North, Range 5 East
14812-C	Stephenson 10-4	Sec. 10, Township 23 North, Range 5 East
14813-C	Tubbs 9-8-1	Sec. 9, Township 23 North, Range 5 East
14814-C	Tubbs 9-1 No. 2	Sec. 9, Township 23 North, Range 5 East
14887-C	Tubbs 9-1 No. 3	Sec. 9, Township 23 North, Range 5 East

The Board may, as a part of this Motion, order that surety holding surety bonds on these wells pay the proceeds of the well bonds to the Board so that the Board's staff may plug and abandon the wells and restore the well sites and dismantle, remove and restore all associated sites.

Further, as a part of this Motion, the Board may order that a portion of the monies in the Alabama Coalbed Methane Gas Plugging Fund be collected by the Board pursuant to Section 9-17-133 et. seq. of the Code of Alabama (1975).

Failure of the operator to comply with the Board's rules, regulations, and orders may result in the Board issuing fines or taking other sanctions against operator, Holland Operating Company, Inc.

16. DOCKET NO. 12-8-09-09

Continued MOTION BY THE STATE OIL AND GAS BOARD OF ALABAMA to amend the State Oil and Gas Board of Alabama Administrative Code to make the Board's regulations consistent with recent amendments to the Alabama Oil and Gas Laws in Act. No. 2008-450 addressing drilling and drainage and production units. Under this Motion, the following regulations of the Board are proposed to be amended:

Onshore Lands Operations—Rule 400-1-1-.01, Applicability; Rule 400-1-1-.05, Definitions; 400-1-2-.01, Well Permit; Rule 400-1-2-.02, Spacing of Wells; Rule 400-1-5-.09, Permissible Tolerance in Production Volumes Allowed for Oil Wells; Rule 400-1-5-.10, Permissible Tolerance in Production Volumes Allowed for Gas Wells.

Submerged Offshore Lands Operations—Rule 400-2-1-.01, Applicability; Rule 400-2-1-.05, Definitions; Rule 400-2-2-.01, Well Permit; Rule 400-2-2-.02, Spacing of Wells; Rule 400-2-5-.09, Permissible Tolerance in Production Volumes Allowed for Oil Wells; Rule 400-2-5-.10, Permissible Tolerance in Production Volumes Allowed for Gas Wells.

1 **Coalbed Methane Gas Operations**—Rule 400-3-1-.05, Definitions; Rule
2 400-3-2-.01, Well Permit; Rule 400-3-2-.02, Spacing of Wells.

3 **Practice and Procedure**—Rule 400-7-1-.11, Notice.

4 **Forced Integration or Forced Pooling**—Rule 400-7-2-.01, Forced
5 Integration or Forced Pooling.

6 The jurisdiction and authority of the Board are set forth in the Alabama
7 Oil and Gas Conservation statutes, Sections 9-17-1, et seq. of the Code of
8 Alabama (1975), as amended.

9
10 17. DOCKET NO. 3-23-10-21

11 Continued MOTION BY THE STATE OIL AND GAS BOARD OF
12 ALABAMA to amend Rule 400-1-2-.05 of the State Oil and Gas Board of
13 Alabama Administrative Code relating to change of operator to provide
14 that within 60 days of the effective date of any agreement causing a
15 change of operator, the new operator must submit the Application for
16 Change of Operator. Further, under the proposed rule, the new operator
17 shall attest that it has ownership or control of one hundred percent (100%)
18 of the rights to drill and produce in the unit. Further, under the proposed
19 rule, the Board may delay the time period for filing the application for an
20 additional period of time. The State Oil and Gas Board of Alabama was
21 established pursuant to Alabama Oil and Gas Conservation Laws as set
22 forth in the Section 9-17-1 et seq. of the Code of Alabama (1975).
23

24 Hearings of the State Oil and Gas Board are public hearings, and members
25 of the public are invited to attend and present their position concerning
26 petitions. Requests to continue or oppose a petition should be received by
27 the Board at least two (2) days prior to the hearing. The public should be
28 aware that a petition may be set for hearing on the first day or second day
29 of the hearing or may be continued to another hearing at a later date. We
30 suggest, therefore, that prior to the hearing, interested parties contact the
31 Board to determine the status of a particular petition. For additional
32 information, you may contact the State Oil and Gas Board, P. O Box
33 869999, Tuscaloosa, Alabama 35486-6999, Telephone Number 205/349-
34 2852, Fax Number 205/349-2861, or by email at petitions@ogb.state.al.us.

1 MR. ROGERS: The Hearings Reporter has received and compiled the proofs of
2 publication for the items appearing on the docket for the first time. These proofs of publication
3 for the items on the June 16 and June 18, 2010, docket are admitted into the record.

4 (Whereupon, the proofs of publication were received in evidence)

5 MR. ROGERS: Furthermore, copies of the information posted on the Website of the
6 Alabama Secretary of State announcing these two meetings of the State Oil and Gas Board on
7 June 16 and June 18, 2010, and a confirmation of successful postings from the Secretary of State
8 are also admitted into the record.

9 (Whereupon, postings and confirmation of postings from the
10 Secretary of State were received into evidence)

11 MR. ROGERS: I have an Order of the State Oil and Gas Board appointing me as
12 Hearing Officer to conduct this hearing on behalf of the Board. The Order will be made a part of
13 the record at this time.

14 (Whereupon, the Order was received in evidence)

15 MR. ROGERS: The procedure for the meeting is as follows. The Hearing Officer and
16 the staff will hear the uncontested items on the docket today and certain other items. The State
17 Oil and Gas Board will hear the recommendations of the Hearing Officer, contested items and
18 certain other items beginning at 10:00 a.m. on Friday, June 18, 2010, at Five Rivers-Alabama's
19 Delta Resource Center in Spanish Fort, Alabama. We will make the following
20 recommendations. With what you said, Mr. Scogin, this will relate to Items 5 and 6 and others.
21 I will recommend that the following petitions be continued: Item 5, Docket No. 2-9-10-01A,
22 petition by Columbia Petroleum, LLC and Item 6, Docket No. 2-9-10-02A, petition by Columbia
23 Petroleum, LLC. Mr. Scogin, do you want to make any statement about those matters?

24 MR. SCOGIN: I'm Mark Scogin representing Columbia Petroleum, LLC. We have still
25 a number of items that need to be done on those petitions in order to have them ready for the
26 Board to hear and a few loose items we hope to have ready for the next hearing.

June 16, 2010

1 MR. ROGERS: One advantage of recommending that they be continued now is that we
2 can get in touch with some of these parties. We know that Mr. Watson is here representing
3 Midroc, so he now knows. We will attempt to contact them, if you can do the same, Mark.

4 MR. SCOGIN: I have some of that information now so I can contact them also.

5 MR. ROGERS: Mr. Watson, if you will, contact your clients to avoid anybody coming
6 to the hearing Friday. Thank you, Mr. Scogin. The next items that we recommend for
7 continuance are Item 9, Docket No. 3-23-10-13, petition by Sklar Exploration Company, LLC
8 and Item 17, Docket No. 3-23-10-21, Motion by the State Oil and Gas Board. Item 1, Docket
9 No. 3-4-09-03 is a petition by Durango Operating LLC. I will recommend that petition be
10 continued with the stipulation that the temporary abandonment status be extended to the August
11 31 and September 2, 2010, hearing of the Board. Item 3, Docket No. 9-8-09-5A, is a petition by
12 HighMount Black Warrior Basin, LLC. I will recommend that petition be continued with the
13 stipulation that the temporary abandonment status be extended to the next regularly scheduled
14 meeting of the Board. Item 2, Docket No. 7-23-09-06B, is a petition by Land and Natural
15 Resource Development Inc. I will recommend that petition be dismissed without prejudice. The
16 following petitions are set for hearing by the Board at the hearing on Friday: Item 11, Docket
17 No. 6-16-10-01B, petition by Exxon Mobil Corporation; Item 12, Docket No. 6-16-10-02,
18 petition by Exxon Mobil Corporation; Item 13, Docket No. 6-16-10-03A, petition by Crosbys
19 Creek Oil and Gas LLC and Item 16, Docket No. 12-8-09-09, a Motion by the Board. That
20 Motion by the Board is a motion to amend certain regulations of the Board consistent with
21 amendments to the Alabama Oil and Gas Conservation Laws which were adopted in Act No.
22 2008-450. Those proposals relate to drilling, drainage and production units. If anybody would
23 like a copy of those regulations, we have those. Are there any comments on all those
24 recommendations? That brings us to the first item, Item 4, Docket No. 10-27-09-02, petition by
25 Stetson Petroleum Corporation.

26 MR. TYRA: I'm John Tyra here on behalf of Stetson Petroleum Corporation. Let me
27 give you an update on where we are. The plug was set on this well May 26th. This was a request
28 for a temporary abandoned status to be continued. Since then they have decided that they are

1 going to sidetrack the well. The plug was set on May 26th. They are finishing up on the land
2 work right now which should be completed on Saturday, June 19th. They hope to rig up on
3 Monday the 21st. They have worked out the permitting issues with Mr. Chasse and I think the
4 permit is going to be issued any day now. It looks like we will be able and ready to start
5 sidetracking the well on Monday or Tuesday of next week. They are working on the OGB-11
6 now and doing a schematic that is required concerning the plug that was set. That will be filed
7 hopefully before this week is out or certainly by the first of next week.

8 MR. ROGERS: Any questions from the staff? Hopefully that will be dismissed.

9 MR. TYRA: I anticipate as soon as the OGB-11 is filed I will go ahead and file a motion
10 to dismiss this because it will be officially plugged at that point.

11 MR. ROGERS: We will make that recommendation, Mr. Tyra. The next item is Item 7,
12 Docket No. 3-23-10-02A, petition by Spooner Petroleum Company. Related matters are Item 8,
13 Docket No. 3-23-10-03A, petition by Spooner and Item 10, Docket No. 4-28-10-02A, petition by
14 Spooner.

15 MR. TYRA: Mr. Rogers, those first two items, Docket Nos. 3-23-10-02A and 3-23-10-
16 03A, we are going to dismiss those portions of the matters today. Those were concerning the
17 Chavers 3-14 well at a point-in-time when we were requesting 120-acre spacing. The most
18 recent docket that we will go forward on today, Docket No. 4-28-10-02A, is requesting spacing
19 of 40 acres. Because of that we will no longer need to go forward on Items 7 and 8 and would
20 ask that they be dismissed. I have brought with me a proposed order of dismissal for those two.

21 MR. ROGERS: Are there any objections to the request to dismiss Items 7 and 8? We
22 will make that recommendation to the Board. Proceed with Item 10, Mr. Tyra.

23 MR. TYRA: Mr. Rogers, I'm John Tyra here on behalf of Spooner Petroleum Company,
24 Inc. I have two witnesses that need to be sworn in, please.

25 MR. ROGERS: Will you gentlemen stand and state your name and address?

26 MR. SPOONER: Harry Spooner, Ridgeland, Mississippi.

27 MR. SPOONER: Michal Spooner, Ridgeland, Mississippi.

28 (Witnesses were sworn by Mr. Rogers)

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1 MR. TYRA: Mr. Rogers, this is a petition by Spooner Petroleum Company to amend the
2 Special Field Rules for the East Lambeth Church Field in Escambia County, Alabama. We are
3 asking that the Pilot Sand Oil Pool be added and defined and made a part of those Special Field
4 Rules. We are also asking that the production unit for the Chavers 3-14 No. 1 Well, Permit No.
5 16042, be approved to consist of the Southeast Quarter of the Southwest Quarter of Section 3,
6 Township 1 North, Range 8 East, Escambia County, Alabama. I have previously filed two
7 affidavits of notice concerning the parties that we have notified concerning this matter. I would
8 ask that they be made a part of the record please.

9 MR. ROGERS: The affidavits of notice are admitted.

10 (Whereupon, the affidavits were received in evidence)

11 MR. TYRA: We will start with you, Mr. Spooner, Harry Spooner. You have testified
12 before this Board on a number of occasions, have you not?

13 MR. SPOONER: Yes.

14 MR. TYRA: Your testimony has been accepted as that of an expert petroleum geologist
15 on those occasions. Is that correct?

16 MR. SPOONER: It has.

17 MR. TYRA: I would ask that Mr. Spooner be recognized today as an expert in the area
18 of petroleum geology.

19 MR. ROGERS: He is so recognized.

20 HARRY SPOONER

21 Appearing as a witness on behalf of Petitioner, Spooner Petroleum Company, testified as
22 follows:

23 DIRECT EXAMINATION

24 Questions by Mr. Tyra:

25 Q. Mr. Spooner, are you aware of or familiar with the petition that we have filed in this
26 matter and the request that we have made of the Board?

27 A. Yes.

28 Q. In that regard, have you prepared exhibits in support of that petition, sir?

1 A. Yes I have.

2 Q. Turn to your first exhibit and explain what this shows, please.

3 A. Exhibit No. 1 is a survey plat of the East Lambeth Church Field prepared by Engineering
4 Service. Superimposed on that plat I have shown the existing units in the field and the
5 proposed unit for the Chavers 3-14 well. They are indicated there by color code. The
6 Cogle sand unit is in green, a 157-acre unit. All of these wells produce from different
7 pools. The Chavers 3-11 is in blue. The proposed unit for the Chavers 3-14 is in red,
8 being the Southeast Quarter of the Southwest Quarter of Section 3, Township 1 North,
9 Range 8 East.

10 Q. That would be your Pilot sand unit. Is that correct?

11 A. That's correct.

12 Q. Go to Exhibit 2.

13 A. Exhibit 2 is a portion of the log for the Chavers 3-14 well showing the Pilot sand interval.
14 Shown on there is our proposed definition of the Pilot sand shown between the two black
15 lines between 6,432 and 6,482. This log is an AIT resistivity log and porosity log and
16 density neutron. A micro-log is shown in the depth tract.

17 Q. It also shows your perforations.

18 A. The perforated intervals are shown in red at 6,432 to 6,436.

19 Q. Does it show the oil-water contact, sir?

20 A. Yes. The oil-water contact is shown.

21 Q. Exhibit 3, please.

22 A. Exhibit 3 is a structure map using the Pilot sand as datum. The Pilot sand and the top of
23 the lower Tuscaloosa are the same point here. A cross section that will be shown in
24 Exhibit 4 is the line of cross section as shown by the blue line designated as A-A'. The
25 Pilot Sand Pool is trapped by a small down-to-the north fault. The reservoir looks like it
26 is very small, maybe seven acres or so. The well is probably going to be a marginal well.
27 It may make enough oil to pay the cost back but not much over that.

28 Q. Exhibit 4, Mr. Spooner.

1 A. Exhibit 4 is a structural cross section, the line of that cross section shown on the previous
2 exhibit. It shows the fault that traps the Pilot Sand Pool as the down-to-the-north fault. It
3 is found in the Chavers 3-14 well at about 6,320 and encountered in the 3-11 well at
4 about 6,550. There is about a 25 foot oil column in the 3-14 well but it just does not
5 cover much area. I think that is probably all on that exhibit that is pertinent to the Pilot
6 pool.

7 Q. All right. Is it your opinion that a production unit consisting of the Southeast Quarter of
8 the Southwest Quarter of Section 3 will efficiently and economically drain and produce
9 the hydrocarbons from that well?

10 A. Yes.

11 Q. Would that unit also avoid waste and protect correlative rights, in your opinion?

12 A. Yes.

13 MR. TYRA: Let's turn to the next exhibit. Mr. Michal Spooner, you have testified
14 before this Board and your resume is on file with the Board. Is that correct?

15 MR. SPOONER: Yes.

16 MR. TYRA: You have been recognized as an expert petroleum engineer by this Board in
17 previous matters. Is that correct?

18 MR. SPOONER: Yes.

19 MR. TYRA: I would ask that Mr. Michal Spooner be recognized again as an expert in
20 the field of petroleum engineering.

21 MR. ROGERS: He is so recognized.

22 MICHAL SPOONER

23 Appearing as a witness on behalf of Petitioner, Spooner Petroleum Company, testified as
24 follows:

25 DIRECT EXAMINATION

26 Questions by Mr. Tyra:

27 Q. Mr. Spooner, are you familiar with the petition that we have filed in this matter and have
28 you prepared exhibits in support of that petition?

1 A. I am and I have.

2 Q. Turn to your first exhibit which is Exhibit 5 and explain what that shows, please.

3 A. This is Form OGB-9, first production or retest report that describes the initial test
4 information on this well. You can see that we tested 151 barrels of oil and 14 Mcf of gas
5 with 48 degree API gravity oil.

6 Q. What was your final flowing tubing pressure?

7 A. 220 psi.

8 Q. Let's turn to your Exhibit 6. Explain what that shows please.

9 A. Exhibit 6 is just the August 2009 production. The well went on production around the
10 13th or on the 13th at 83 barrels a day and no water. By the third day we started making
11 water. The water was gradually increasing. Our flowing tubing pressure was decreasing
12 so at the end of about 10 or 11 days the well would not flow. We had rod pump
13 equipment and stuff there on location so we pulled the well and ran rods and a pump.
14 You can see that we were able to significantly pick up the oil production and of course
15 the water production came up along with it. At the end of the month we were doing 231
16 barrels of oil per day and 81 barrels of water per day with 27 Mcf. That was the first
17 month's production.

18 Q. Let me ask you a question about the PVT. Because it had to go through a rod pump so
19 quickly you did not have an opportunity or a chance to do a PVT. Is that correct?

20 A. That's correct.

21 Q. But it is your opinion that this is an oil well?

22 A. No doubt about it. It is an oil reservoir.

23 Q. Exhibit 7, please.

24 A. Exhibit 7 is a production decline curve showing the first several months of production,
25 August 2009 through March 2010. You can see in general the oil production is declining.
26 The water production was coming up. Obviously this graph is several months dated. The
27 well is currently producing 18 barrels a day and some 400 to 500 barrels of water per day.

1 Q. I'll ask you the same question that I asked your father. Is it your opinion that a
2 production unit consisting of the Southeast Quarter of the Southwest Quarter will
3 efficiently and economically drain and produce the recoverable hydrocarbons?

4 A. Yes.

5 Q. Would that unit also prevent waste and protect correlative rights?

6 A. Yes.

7 MR. TYRA: I tender both witnesses for any questions that the staff may have.

8 MR. ROGERS: Any questions from the staff?

9 DR. BOLIN: Mr. Rogers, I don't have any questions from the staff but I would ask that
10 the records for this well including the production records and the history of the producing well be
11 incorporated for this matter.

12 MR. ROGERS: The request is granted. The records of the Oil and Gas Board relating to
13 this well are incorporated into this record.

14 (Whereupon, records relating to subject well were
15 incorporated by reference)

16 MR. TYRA: I also ask that you incorporate and make a part of the record the exhibits
17 that were just testified to, please.

18 MR. ROGERS: The exhibits are admitted.

19 (Whereupon, the exhibits were received in evidence)

20 MR. ROGERS: We have already admitted these affidavits of notice and they indicate
21 that notice was given broadly in this area. We will also note that there is no one here in
22 opposition to this proposed unit. Any other questions? Anything else, Mr. Tyra?

23 MR. TYRA: That is all.

24 MR. ROGERS: We will review the evidence and make a recommendation to the Board.

25 MR. TYRA: Thank you.

26 MR. ROGERS: We will take a brief recess.

27 (Whereupon, the hearing was recessed for one minute)

1 MR. ROGERS: The hearing is again in session. The next item is Item 14, Docket No. 6-
2 16-10-04, petition by Saga Petroleum, LLC of Colorado.

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

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

6 MR. KEENER: Brett Keener, McCalla, Alabama.

7 (Witness was sworn by Mr. Rogers)

8 MR. WATSON: Mr. Rogers, this is a petition by Saga Petroleum LLC of Colorado
9 requesting the Board to enter an order approving exceptions to Rules 5 and 9 of the Special Field
10 Rules for the Burdine Creek Field in Pickens County, Alabama, as those rules relate to the
11 McShan 2-1-1 well. This item comes to you on publication notice. Brett Keener, have you
12 appeared before this Board and is there on file an affidavit of your qualifications as a petroleum
13 engineer?

14 MR. KEENER: Yes sir.

15 MR. WATSON: Have you prepared exhibits in support of the request that I have just
16 described?

17 MR. KEENER: Yes sir.

18 MR. WATSON: I tender him as an expert petroleum engineer for giving testimony in
19 this item, Mr. Rogers.

20 MR. ROGERS: He is so recognized.

21 BRETT KEENER

22 Appearing as a witness on behalf of Petitioner, Saga Petroleum Limited Liability
23 Company of Colorado, testified as follows:

24 DIRECT EXAMINATION

25 Questions by Mr. Watson:

26 Q. I have handed up to Mr. Rogers and the staff the exhibits that you have prepared. Let's
27 look at your first exhibit. This is a wellbore schematic of the McShan 2-1-1 well. Tell us
28 what is shown on that exhibit, please, sir.

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- 1 A. This first exhibit illustrates the current downhole equipment consisting of 2-7/8 inch
2 tubing and a downhole packer. It also illustrates a smaller diameter pipe that we would
3 like to install in this well which would consist of 1-1/4 inch coil tubing that would allow
4 us to actually go through the packer towards the end of the casing and ultimately closer to
5 the sandstone.
- 6 Q. Currently the field rules, Rules 5 and 9, of the Burdine Creek Field require the operator to
7 perform bottom hole pressure tests with pressure gauges in the bottom of the hole. This
8 configuration that you have just described would prevent that, would it not?
- 9 A. That's correct.
- 10 Q. Let's turn to your second exhibit. Tell us what is shown on this graph.
- 11 A. This graph ultimately illustrates our issue with this well which is the lack of water
12 production from October up to the current date and ultimately the effect on gas
13 production.
- 14 Q. Is it correct to say that the water impedes the gas production from this well?
- 15 A. That's correct.
- 16 Q. Your third exhibit?
- 17 A. This also illustrates the effects of the water downhole in this well. It also illustrates the
18 ineffectiveness of flowing this water to the surface.
- 19 Q. Exhibit No. 4.
- 20 A. Exhibit No. 4 is a calculation of critical flow rate for water removal, essentially the
21 calculation required to remove water droplets from a gas stream. Currently for 2-7/8 inch
22 tubing based on the flow rate and surface pressures the required velocity to remove water
23 from the stream is nine feet a second. We are currently at 7.6 feet per second. The 1-1/4
24 inch coil tubing string would provide us that velocity to remove any water droplets from
25 the gas stream.
- 26 Q. You can't run the required bottom hole pressure test according to the rules with this small
27 coil tubing in that wellbore, can you?
- 28 A. Yes sir, that's correct.

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1 Q. Let's look at your monthly fluid production which is your next exhibit.

2 A. This basically illustrates the fluid production from this well from June of 2009 up to May
3 2010. Once again, you see the lack of water production from October 2009 up to May
4 2010. Currently up to June 16th we have made 1.6 barrels of condensate and zero barrels
5 of water this month.

6 Q. What are you proposing in lieu of this bottom hole pressure survey with a gauge?

7 A. We would like to calculate the bottom hole pressure with a properly calibrated surface
8 gauge.

9 Q. Is it your opinion that that calculation using that calibrated surface gauge will give you an
10 accurate indication of the pressure?

11 A. Yes sir.

12 Q. It would also allow you to recover the hydrocarbons from this well by using the coil
13 tubing that you have just described in your Exhibit 1?

14 A. That is also correct.

15 Q. Would this procedure that you have proposed, the coil tubing to try to get the water out,
16 prevent waste and protect correlative rights?

17 A. Yes sir.

18 Q. And maximize the recovery of gas from this wellbore?

19 A. Absolutely.

20 MR. WATSON: Mr. Rogers, I would ask that you receive into the record of this hearing
21 Exhibits 1 through 5 to the testimony of Mr. Keener.

22 MR. ROGERS: The exhibits are admitted.

23 (Whereupon, the exhibits were received in evidence)

24 Q. Mr. Keener, by approving this procedure for calculating the bottom hole pressure you
25 would prevent waste and protect correlative rights. Is that correct?

26 A. Yes sir.

27 MR. WATSON: I tender the witness to the staff for any questions you have?

28 MR. ROGERS: Any questions from the staff?

BRETT KEENER

EXAMINATION BY BOARD/STAFF

Questions by Mr. Gregory:

Q. Mr. Keener, will a bottom hole pressure be run with a bottom hole pressure gauge before this procedure is done?

A. Yes sir. That is correct.

MR. GREGORY: Thank you.

MR. ROGERS: Any other questions? Anything else, Mr. Watson?

MR. WATSON: That's all we have.

MR. ROGERS: The staff will review the evidence and make a recommendation to the Board.

MR. WATSON: Thank you.

MR. ROGERS: The next item is Item 15, Docket No. 7-23-09-12. This is a Motion by the Oil and Gas Board for Holland Operating Company, Inc. to show cause why certain wells at Moundville in Hale County should not be ordered plugged and abandoned and natural gas pipelines, compressor stations, tin horns, etc. be cleaned up and dismantled in accordance with the Board's rules. Mr. Sanders, are you here to address the Hearing Officer and the staff?

MR. SANDERS: Yes, Mr. Rogers. Holland has authorized myself and John Haddock to appear today to answer questions and fill in any details that the staff might need concerning this.

MR. ROGERS: Why don't you gentlemen stand and I'll place you under oath? State your name and address.

MR. SANDERS: R.G. Sanders, Tuscaloosa, AL.

MR. HADDOCK: John Haddock, Northport, AL

(Witness were sworn by Mr. Rogers)

MR. ROGERS: Why don't you just go ahead Mr. Sanders and give us an update on where we stand.

MR. SANDERS: Back on June 3rd Holland Operating sent Dr. Tew a letter advising the Board that Holland had plugged all five wells at Moundville. The OGB-11's have been

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1 submitted. They were submitted on June 2nd. Holland also has signed a contract with a
2 contractor to have the gathering system cleaned up and all the facilities removed and disposed of.

3 MR. ROGERS: We have that letter, the letter dated June 3rd from Bob Petryk with
4 Holland to Dr. Tew. That letter will be admitted into the record.

5 (Whereupon, the letter was received in evidence)

6 MR. SANDERS: The letter also advised the Board that they have authorized John and
7 myself to appear today on their behalf to deal with these items. The plugging was completed on
8 May 18th and the OGB-11's were filed on June 2nd. It is my understanding that the field agent
9 has looked at the locations and has basically stated that they were cleaned up to his satisfaction.
10 We do have motor controllers and a power pole still left on each location which we intend to
11 move and also a 400 barrel fiberglass green tank that is down there. That will be removed in the
12 clean-up phase of the gathering system. The other item is the Moundville Compressor Station
13 No. 19 which has equipment, concrete, fences and assorted facilities there. Our plan for those,
14 both the gathering system and the compressor station, is to have those facilities cleaned up
15 according to the Board's rules by August 31st. Holland states in their letter that if it is
16 satisfactory to the Board to allow us to August 31st to clean this up that that would give them
17 time to do an economic clean-up procedure which basically means to take bids and not have to
18 be under the press for time to get those things cleaned up in a short period of time. That is plenty
19 of time for us to do what we need to do. John has taken on the responsibility for dealing with the
20 waste water ponds. I will let him tell you what that plan consists of.

21 MR. ROGERS: All right.

22 MR. HADDOCK: Holland has authorized my company, Environmental Testing and
23 Engineering, to provide consulting services to close the Cutoff Lakes Treatment Facility. We
24 have prepared a grading plan and specifications and are in the process of getting bids to close it
25 out. We expect to start in the next two to three weeks. I don't expect it to take more than two or
26 three weeks to complete it.

27 MR. ROGERS: You should be through by the end of July probably or a little later?

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1 MR. HADDOCK: It will be a little later than that. There is some water in it that we are
2 going to have to discharge and that will probably take about a week. We will do that under their
3 existing NPDES permit.

4 MR. ROGERS: Any questions from the staff? Mr. Masingill.

5 R. G. SANDERS

6 EXAMINATION BY BOARD/STAFF

7 Questions by Mr. Masingill:

8 Q. Do you think you could complete all of the work that both of you have stated, weather
9 permitting, by the August 31 and September 2nd meeting of the Board?

10 A. I would expect we could.

11 MR. MASINGILL: Thank you.

12 MR. ROGERS: Any other questions? Let's just review the evidence and make a
13 recommendation to the Board. Anything else gentlemen? We will review the evidence and
14 make a recommendation to the Board at the hearing on Friday. Anything else for this hearing?
15 The hearing is adjourned.

16 (Whereupon, the hearing was adjourned at 10:35 a.m.)

REPORTER'S CERTIFICATE

STATE OF ALABAMA

COUNTY OF TUSCALOOSA

I, Rickey Estes, Hearing Reporter in and for the State of Alabama, do hereby certify that on Wednesday, June 16, 2010, in the Board Room of the State Oil and Gas Board Building, University of Alabama Campus, Tuscaloosa, Alabama, I reported the proceedings before a Hearing Officer in Regular Session, that the foregoing 25 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