STATE OIL AND GAS BOARD OF ALABAMA

Tuscaloosa, Alabama

February 8, 2011

ORIGINAL

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 8th day of February, 2011.

BEFORE

Mr. Marvin Rogers.....Attorney

STAFF

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

Dr. David E. Bolin.....Deputy Director

Mr. Kirk McQuillan....Technical Operations Coordinator

Mr. Butch Gregory.....Engineer

Mr. Randy Oglesby.....Geologist

Mr. Elbert Patterson.....Engineer

3/31/2011 MR

I N D E X

OFFERED

MR. ROGERS: This hearing is in session. I want to announce that we -- the board members have decided to have the next hearing of the Board, which will be the 31st of March at the Choctaw County Courthouse in Butler, and that is in consideration of the development there and in consideration of the fact that the first oil well was drilled in Choctaw County and our board members have said that from time to time they want to have meetings in other towns so -- in other counties, so we have arranged to have the meeting at 10:00 on Thursday, March 31st, at the Choctaw County Courthouse in Butler.

A lot of you are familiar with that. I see Mr. Clark, he has probably been down there many times. And the hearing officer meeting will be here, though, on the Tuesday before that, which will be March 29th.

Dr. Tew, have the items for the February 8th and February the 10, 2011 meeting been properly noticed?

DR. TEW: The items on February the 8th and February 10th, 2011 docket have been properly noticed and the docket is due to be admitted into the record.

MR. ROGERS: The hearings reporter has received and compiled the proofs of publication for the items appearing on the docket for the first time. These proofs of publication for the items on the February 8th and February 10, 2011 docket are admitted into the record.

(Whereupon, February 8 and 10, 2011 docket was admitted into evidence.)

MR. ROGERS: Furthermore, copies of the information posted on the website of the Secretary of State announcing these two meetings of the State Oil and Gas Board on February 8 and February 10, 2011, and a confirmation of successful postings from the Secretary of State is also admitted into the record.

I have an order of the State Oil and Gas Board appointing me as hearing officer to conduct this hearing on behalf of the Board. The order will be made a part of the record at this time.

(Whereupon, the proofs of publication and Order were admitted into evidence.)

MR. ROGERS: The procedure for the meeting is as follows: The hearing officer and the staff will hear the uncontested items on the docket today and certain other items.

The State Oil and Gas Board will hear the recommendations of the hearing officer, contested items and certain other items beginning at 10:00 a.m. on Thursday, February 10, 2011 at the -- here in the office of the State Oil and Gas Board in Tuscaloosa.

I will recommend that the following petitions be continued: Item 2, Docket No. 10-26-10-10, petition by

Land and Natural Resource Development; Item 3, Docket No. 10-26-10-11, petition by Land and Natural Resource Development; Item 28, Docket No. 10-26-10-14, a motion by the Board; and Item 29, Docket No. 02-08-11-19, a motion by the Board.

Those two motions are motions to amend rules of the Board and you can get copies of those particular proposed regulations from the staff, if you would like to review those prior to the hearing.

The following items are set for hearing by the State Oil and Gas Board at the meeting on Thursday: Item 5, Docket No. 12-7-10-14A, petition by Venture Oil and Gas, Incorporated; Item 6, Docket No. 12-7-1-15A, petition by Venture; Item 7, Docket No. 12-7-10-16A, petition by Venture; Item 15, Docket No. 02-08-11-08, petition by Sklar Exploration Company, LLC; Item 19, Docket No. 02-08-11-12, petition by Renaissance Petroleum; Item 23, Docket No. 02-08-11-16, petition by Fletcher Petroleum.

I will note that another item we had on the Board's docket is going to be continued and that will be Item 24, 02-08-11-17, petition by Fairways Exploration, so that petition is continued.

Also set for the hearing on Thursday is a petition by Josalyn Barnett and others, docket number -- Item 25, Docket No. 02-08-11-18A; and two motions by the

Board, those motions are Item 26, Docket No. 08-26-08-25A, and Item 27, Docket No. 07-23-9-12.

The remaining items are set for hearing today by the hearing officer. Do we have any comments or changes, any comments on those recommendations?

(No response.)

MR. ROGERS: All right. The first item is Item 1, Docket No. 9-8-09-07A, petition by Escambia Operating Company.

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

MR. ROGERS: State your name and address.

THE WITNESS: Ken Hanby, Northport, Alabama.

KEN HANBY,

having been first duly sworn, was examined and testified as follows:

MR. WATSON: Mr. Rogers, this is a petition by Escambia Operating Company asking the Board to enter an order extending the temporary abandonment status of Powell Gas Unit 19-4 well located in the Flomaton Field, Escambia County, Alabama.

MR. ROGERS: Let me interrupt you, Tom. We have with us a hearings reporter who is going to transcribe all

of the hearings, a new development in the hearings of the Oil and Gas Board. Nice to have you with us.

THE REPORTER: Thank you.

MR. ROGERS: And what we would like to do, Mr. Watson, in every petition, so that she will get to know the attorneys, we would appreciate it if you would just identify yourself at the beginning of each petition, Mr. Watson and all the other attorneys.

MR. WATSON: I will be glad to do that.

MR. ROGERS: If you will do that, Mr. Watson.

MR. WATSON: My name is Tom Watson representing Escambia Operating Company, the petitioner in this matter.

MR. ROGERS: Thank you.

MR. WATSON: I would like to qualify my witness, Mr. Rogers, Ken Hanby, who has appeared before you and has on file with you an affidavit of his qualifications as a petroleum engineer.

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Hanby, are you familiar with the petition that I have just sounded to be heard this morning relating to the Powell Gas Unit 19-4 well?

A. Yes, sir, I am.

Q. And are you familiar with the questionnaire that this Board has requested be filled out relating to this well?

A. Yes, sir.

Q. I take it.

MR. WATSON: I tender Mr. Hanby as an expert witness for giving testimony on this item, Mr. Rogers.

MR. ROGERS: So recognized.

MR. WATSON: I have handed up to you, Mr. Rogers, and to -- or Randy, the questionnaire prepared by Escambia Operating.

Q. (BY MR. WATSON:) Mr. Hanby, tell us briefly what is the status of this well and why Escambia Operating would like the temporary abandonment status extended for an additional year.

A. The Powell 19-4 No. 1 well, Permit Number 2991, commenced production in 1980. And in 2004, actually September of 2004, after the well had been shut in before the Ivan hurricane, they were unable to bring the well back onto production, and jetting operations and others were performed and were unsuccessful in bringing it back on production. Last year, a work-over was conducted on the well to replace the tubing and restore production. And upon entering that well and working for the work-over attempts, they found that there was a casing collapse at 15,130 feet.

We have an Exhibit 1, which is the schematic showing the current status of the well. When they went in the well and found the collapsed casing, they had cut the

tubing off at 15,194 feet and --

MR. ROGERS: Excuse me, Mr. Watson. We have the questionnaire, but I don't know if we have the exhibits.

MR. WATSON: It's attached to the questionnaire.

MR. ROGERS: The exhibits are attached?

MR. WATSON: Yeah, the one exhibit is attached, the schematic. That is what Mr. Hanby is describing.

A. And this schematic shows the construction of the well, the casing that is in place, the cement that was placed in the well during the completion.

And following that work-over, they ended it and were unable to restore production with that collapsed casing. They hung a kill line 2 and 7/8s inch tubing to 10,104 feet. And the plans for this well are to either decide to re-enter it and set a cement plug and permanently plug off the Smackover perforations, which are shown on the schematic, and shown also by the depth 15,440 feet and 15,479 feet, and to sidetrack the well to attempt another completion in the Norphlet in the Flomaton Field.

And in lieu of that, if they decide not to take that approach to reestablish production in this section, they will consider re-completing this well as a saltwater disposal well. And it's anticipated that during this year that decision will be made and those work-overs attempted or the well will be plugged and abandoned permanently during the

year 2011.

Q. (BY MR. WATSON:) So, Mr. Hanby, your testimony is this well does have future utility in that it could be either re-completed or it could be used as a saltwater disposal well?

A. That is correct.

Q. And it would be premature to have that well plugged at this time until those decisions are made by Escambia Operating Company?

A. That is correct, and if they make that decision to attempt that re-completion or conversion.

Q. All right. And if all those fail, then they plan to plug this well in the year -- this year, 2011?

A. That is correct. And in the well is two percent KCl, the pressures are monitored. As of Friday, we sent an agent by there to look at the well and there was zero pressure on the casing, zero pressure on the tubing, and it has a daily visit by an employee of Escambia Operating Company or a pumper working for them.

The two percent KCl gives a bottom hole pressure of 7,012 psi from hydrostatic hit from the fluid. The actual initial pressure in the Flomaton Field was 7,725 psi and over 258 billion feet of gas has been produced from that reservoir to date.

Q. So is it your testimony that this well is in a safe

condition as it sits there today?

A. Yes, sir. And in addition, there are H2S monitors there that send a continuous signal to the Flomaton plant in the event any H2S was detected.

MR. WATSON: So, Mr. Rogers, I would ask that you receive this Exhibit 1 which consists of the questionnaire that the Board asked to be filled out, along with the attached schematic, ask that you receive that into the record of this hearing today.

(Whereupon, Exhibit 1 was offered for into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibit 1 was admitted into evidence.)

Q. (BY MR. WATSON:) And, Mr. Hanby, would the granting of the extension of the temporary abandonment status for one year promote orderly development, prevent waste and protect correlative rights?

A. Yes, sir, it would.

MR. WATSON: I tender Mr. Hanby to you, Mr. Rogers, and members of the staff, if you have any questions on this item.

MR. ROGERS: Any questions from the staff?

CROSS-EXAMINATION BY MR. MCQUILLAN:

Q. Mr. Hanby, in the Exhibit 1 there, it states there requesting shut-in status, the petition is requesting TA status?

A. Excuse me?

Q. In Exhibit 1 here that you submitted, it states that you are requesting shut-in status?

A. Yes, sir.

Q. But just for clarification, you are just requesting temporary abandonment status, right?

MR. WATSON: That is correct.

MR. ROGERS: The petition asked for temporary abandonment status so we assume that is just an error.

MR. WATSON: Yes.

MR. ROGERS: Okay. Anything else, Kirk?

MR. MCQUILLAN: No.

MR. ROGERS: Anything else from the staff?

(No response.)

MR. ROGERS: We have another copy that wasn't signed, like this one is signed (indicating). This is the one that was stamped in, so if you will sign this exhibit, Mr. Hanby.

MR. Hanby: Sure.

MR. ROGERS: Anything else, Mr. Watson?

MR. WATSON: That is all.

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

The next item then is Item 4, Docket No. 12-7-10-03B, petition by Hughes Eastern Corporation.

MR. WATSON: Are you ready?

MR. ROGERS: If you will introduce yourself, I suppose, Mr. Watson.

MR. WATSON: Again, Tom Watson representing Hughes Eastern Corporation. I prefiled an Affidavit of Notice and an Amended Affidavit of Notice in this item, Mr. Rogers. I would like those Affidavits of Notice admitted into the record.

MR. ROGERS: The notice and amended Affidavit of Notice are admitted.

(Whereupon, the notice and Affidavit of Notice were admitted into evidence.)

MR. WATSON: This is a petition by Hughes Eastern Corporation asking the Board to amend Rule 2 of the Special Field Rules for the Molloy Gas Field in Lamar County, Alabama, to add the Chandler Sand Gas Pool to the field as a result of the re-completion of the Richards 33-11 No. 1 well, and we are asking that you approve the 320-acre unit consisting of the West Half of Section 33, Township 15 South, Range 16 West, Lamar County, Alabama for this Richards 33-11 No. 1 well as a production unit for this well

in this field.

I have prefiled an affidavit of testimony of Emil Pawlik, along with exhibits in support of that affidavit of testimony. Mr. Pawlik has appeared before this Board, has on file with you an affidavit of his qualifications as a petroleum engineer. The affidavit speaks to the issues that I have just described in this petition. The exhibits support that as evidence, and I would ask that you receive into the record of this hearing the revised affidavit of testimony of Mr. Pawlik, along with the exhibits attached thereto.

MR. ROGERS: The affidavit of Mr. Pawlik called Revised Affidavit of Testimony is admitted into the record. The exhibits are admitted into the record, and I have already admitted the Affidavits of Notice.

(Whereupon, revised affidavit and exhibits were admitted into evidence.)

MR. WATSON: And that is all I have on this matter, Mr. Rogers, and ask that you make a recommendation to the Board based on the evidence presented.

MR. ROGERS: All right. Does the staff have any questions?

(No response.)

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

MR. WATSON: Thank you.

MR. ROGERS: The next item in is Item 8, Docket No. 02-08-11-01, petition by Bay Gas Storage Company.

Mr. Coleman, if you would state your name and address for the record.

MR. COLEMAN: Yes, I'm Mike Coleman of Tuscaloosa, Alabama, representing the petitioner in this matter.

I have no witnesses. This has been submitted by affidavit for the Board's consideration. But just basically, the petitioner is the operator of the Bay Gas Salt Dome Gas Storage Facility, number four in McIntosh, which is located in the Southwest quarter of the Southwest quarter of Section 37, Township 4 North, Range 1 East, Washington County, Alabama, which includes a buffer zone extending into the Northwest quarter of Section 29, Township 3 North, Range 1 East in said county.

The Bay Gas Salt Dome Gas Storage Facility, number four in McIntosh, was heretofore established and approved by the Board in Order No. 2007-64, and petitioner was appointed as the operator of the facility by that order.

The Special Gas Storage Rules for the facility were amended by Order No. 2010-57. And essentially Rule 1 of the Special Gas Storage Rules as amended for the facility contains in subparagraph B2 thereof a description of the

cavity site for said facility. Immediately below the description, there is a provision dealing with amending this particular rule if the cavity, as actually constructed, and so forth deviates from the original plan, and that is apparently what has happened here.

So prior to injection of gas into the storage cavity, an affidavit has been filed with the supervisor pursuant to this rule, Mr. Rogers, and also at the request of the supervisor, so this petition and the affidavit have been submitted for consideration by the Board in that regard. So it's essentially seeking an amendment of the Special Gas Storage Rules for this facility to be consistent with the correction description.

MR. ROGERS: All right. Would you review the exhibits, Mr. Coleman? I believe we have three exhibits, an affidavit and three exhibits; is that correct?

MR. COLEMAN: If I might see those, I am standing in for someone and I don't actually have that exhibit.

MR. ROGERS: I'll just state what we have. The affidavit executed by Maurice Gilbert, and then we have three exhibits attached. I'll leave it at that.

MR. COLEMAN: I would ask that that affidavit and those exhibits be admitted into the record.

(Whereupon, affidavit and exhibits were offered

was marked for identification.)

MR. ROGERS: Those items are admitted into the record.

(Whereupon, the affidavit and exhibits were admitted into evidence.)

MR. COLEMAN: That is all I have, Mr. Rogers, if you will just submit it to the Board on that basis.

MR. ROGERS: Any questions from the staff?

(No response.)

MR. ROGERS: No questions from the staff. We will review the evidence and make a recommendation to the Board. Thank you.

MR. COLEMAN: Thank you.

MR. ROGERS: The next item in is Item 9, Docket No. 02-08-11-02, petition by Land and Natural Resource Development.

MR. WATSON: Again, I'm Tom Watson representing Land and Natural Resource Development. I have one witness and would like to have him sworn.

MR. ROGERS: Stand and state your name and address.

THE WITNESS: David Higgingbotham, Tuscaloosa, Alabama.

DAVID HIGGINGBOTHAM,

having been first duly sworn, was examined and testified as follows:

MR. ROGERS: Thank you.

MR. WATSON: Mr. Rogers, I have prefiled an Affidavit of Notice in this matter. I would like to admit it into the record, please.

MR. ROGERS: The Affidavit of Notice is admitted.

MR. WATSON: This is a request by Land and Natural Resource Development, Incorporated asking the Board to enter an order amending Rule 1 of the Special Field Rules for the Hells Creek Field, Lamar County, Alabama, particularly to amend that rule by adding additional lands to the field limits; namely, the Northwest Corner of Section 30, Township 15 South, Range 14 West, Lamar County, Alabama.

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Higgingbotham, you are familiar with this petition?

A. Yes, sir.

Q. Have you prepared exhibits in support of this petition?

A. Yes, sir.

Q. Do you have on file with this Board an affidavit of

your qualifications as a petroleum geologist?

A. Yes, sir.

MR. WATSON: I tender Mr. Higgingbotham as an expert witness for giving testimony on this item, Mr. Rogers.

MR. ROGERS: He is so recognized.

Q. (BY MR. WATSON:) If you would, Mr. Higgingbotham, turn to the packet of exhibits I have passed out, the Exhibit Number 1, and tell us what that exhibit is and describe the information shown on it, please, sir.

A. Exhibit Number 1 is an Isopach map of Lewis Gas Pay. The contour interval is 10 feet. It is superimposed on a structure contour map on top of the Tuscumbia limestone. The contour interval is 50 feet. Outlined in blue is the existing Hells Creek Field. Outlined in green dash is the existing production -- or the production unit for the proposed well, Benton well. And outlined in orange is the proposed addition to the Hells Creek Field.

This map illustrates that the Land Inc. Benton well was drilled in the Northwest quarter of Section -- or Northeast Corner of Section 25. The wells on the map are graphically illustrated in the next exhibit by cross-section A - A', which is shown here. This is a dry hole over in Section 24 that had zero feet of Lewis sand. There was a well in Section 25, the Wheeler-Boyett, Permit No. 2741, that

had 30 feet of sand and it had gas on the water in top of the Lewis sand. And then there is a well in Section 30, the TXO Pennington 30-5 that had gas on water in the Lewis sand. And then there is a well to the north in Section 19, the Glasgow 19-13, Permit No. 2877, that had zero feet of sand. And Land Inc. drilled in between the two wells. It had drilled north of the wells that had gas on water and south of the wells that had no sand, and made a productive well in the Northeast quarter. And Land Inc. proposes to extend the Hells Creek Field boundary to the east as is outlined in the area in orange.

Q. All right. Let's go to Exhibit Number 2, that line of cross-section that you depict on your Exhibit 1 and describe that for us, please, sir.

A. Exhibit Number 2 is the line of cross-section that I referred to previously in Exhibit Number 1. It graphically illustrates the stratographic structural nature of the gas trap for the Benton 25-1 well to the Northwest of Lawrence 24-14 well, encountered zero feet of Lewis sand over to the south, the Wheeler-Boyett, and to the east, the Pennington 13 had Lewis sand, but it had gas on top of water. Land, Inc. drilled the Benton well in between the other wells, came in structurally high with 12 feet of Lewis gas sand.

Q. All right, sir. Now, on OGB-9, your Exhibit Number 3, tell Mr. Rogers and staff the results of that well's first

test.

A. Exhibit Number 3 is an OGB-9 form, the test date was September 7th, 2010. The well was tested. The Lewis sand was tested for 24 hours and the well flowed at a rate of 700,000 cubic feet of gas of day on a 14/64 choke.

Q. All right, sir. Mr. Higgingbotham, would the amendment adding the Northwest quarter of Section 30, Township 15 South, Range 14 West, Lamar County, Alabama, to the Hells Creek Field promote orderly development, prevent waste and protect correlative rights?

A. Yes, it would.

MR. WATSON: Mr. Rogers, I would ask that you receive into the record of this hearing Exhibits 1 through 3 to the testimony of Mr. Higgingbotham.

(Whereupon, Exhibits 1-3 were offered into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibits 1-3 were admitted into evidence.)

MR. WATSON: I tender the witness for you and members of the staff for any questions you may have.

MR. ROGERS: Dr. Bolin?

EXAMINATION BY DR. BOLIN:

Q. Mr. Higgingbotham, on your Exhibit 1 --
A. Yes, sir.
Q. -- down in the lower left-hand corner, it gives some reference to a base map and it references Sylacauga West. That would appear to be wrong geographically regarding where the field is located. And can that be corrected?
A. Yes, sir, absolutely.
Q. Okay. But it should not change anything in regard to the sections and the township and ranges, should it?
A. Oh, not at all.

DR. BOLIN: Okay. Thank you.

MR. ROGERS: All right. We will leave the record open then, Mr. Watson, and your client can submit that anytime and we will accept that into the record.

MR. WATSON: All right.

MR. ROGERS: Just try to do it as soon as possible and get it done by Thursday.

MR. WATSON: All right. We can do that.

MR. ROGERS: Anything else, Mr. Watson?

MR. WATSON: That is all.

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

The next item in is Item 10, Docket No. 02-08-11-03B, petition by Pruet Production Company.

MR. WATSON: Mr. Rogers, again, I'm Tom Watson

representing the Pruet Production Company and I have two witnesses that I would like to have sworn in, please, sir.

MR. ROGERS: All right. You gentlemen state your names and addresses.

THE WITNESS: David Cate, Brandon, Mississippi.

THE WITNESS: David Hilton, Jackson, Mississippi.

DAVID CATE,

having been first duly sworn, was examined and testified as follows:

MR. WATSON: I have prefiled an Affidavit of Notice in this matter, Mr. Rogers, and ask that it be admitted into the record, along with your letter to me dated January 14th relative to notice.

MR. ROGERS: The Affidavit of Notice of Mr. Watson is admitted, and the letter, my letter to Mr. Watson dated January 14th, that letter is admitted as well.

MR. WATSON: This is a petition by Pruet Production Company asking the Board to enter an order establishing a new oil field in Escambia County to be known as the West Robinson Creek Field or such other name as the Board deems appropriate. We are asking that the Board

promulgate Special Field Rules for this new field. And finally, we are asking the Board to establish a permanent production unit for the Chunn 12-10, No. 1 well, located in the proposed field.

My first witness for Pruet is Dave Cate, who is a petroleum geologist.

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Cate, you are familiar with this petition, and have you prepared exhibits in support of the establishment of this new oil field in Escambia County?

A. I have.

Q. And do you have on file with this Board an affidavit of your qualifications as a petroleum geologist?

A. I do.

MR. WATSON: I tender Mr. Cate as an expert witness for giving testimony in this item, Mr. Rogers.

MR. ROGERS: He is so recognized.

MR. WATSON: I have handed up to you and the members of staff a booklet of exhibits prepared by Pruet, and I would ask that you turn to Exhibit Number 1.

Q. (BY MR. WATSON:) And, Mr. Cate, would you describe what is shown on that exhibit, please, sir?

A. Exhibit Number 1 is a surveyor's plat showing the location of the Pruet Production Company No. 1 Chunn 12-10

well in a 160-acre drilling unit that is comprised of the East half of the Southwest quarter and the West half of the Southeast quarter, Section 12, Township 3 North, Range 6 East, Escambia County, Alabama. Both the surface and bottom hole locations for the Chunn 12-10 well are shown. The bottom hole location is 839 feet from the East line of the unit, 1,011 feet from the North line of the unit, and as such is a regular location within that 160-acre unit.

We are proposing today that that drilling unit be converted to the 160-acre production unit for the Chunn 12-10 well.

Q. All right, sir. And you have correctly stated that the location of the bottom hole of this well complies with the proposed Special Field Rules that we have submitted for the West Robinson Creek Field so it is a legal location; is that correct?

A. That is correct.

Q. Turn, if you would, now, to Exhibit Number 2 and tell Mr. Rogers and the staff what that exhibit is and describe the information shown on it, Mr. Cate.

A. Exhibit Number 2 is a structure map contoured on top of the Smackover formation. It shows the previous described drilling unit in dashed green outline. This map was made from a subsurface information obtained from the Chunn well and the Pruet No. 1 Morris 1-15 well to the North in Section

One, which was a dry hole. It's also prepared based on 3-D seismic data that we have in our files, and the map conforms somewhat to that 3-D seismic interpretation.

The Chunn structure is a map line of closure contained entirely within the 160-acre unit. The green dash line is our proposed 160-acre production unit. It's also the limits for the proposed West Robinson Creek Field. Two arbitrary seismic lines are shown and these will be discussed on the following exhibits.

Q. You are also showing an oil/water contact at -14,091 feet?

A. Yes.

Q. All right. Let's turn to your Exhibit Number 3 which is the first of the arbitrary seismic lines. And describe this north/south arb line, please, sir.

A. Exhibit Number 3 is the north/south arbitrary seismic line taken from the 3-D seismic database which shows a relative location of the Pruet No. 1 Chunn 12-10 well and the dry hole No. 1 Morris 1-15 well.

The top of the Smackover is shown by the light blue pic and it shows that the Chunn 12-10 well was drilled on the crest of the productive structure with -- which has north/south reversal as obvious from this seismic line.

The Chunn 12-10 well is separated by a synclinal area from the higher but dry No. 1 Morris 1-15 well. The two

vertical green lines are the limit lines for the proposed West Robinson Creek Field.

Q. All right, sir. Go to your Exhibit Number 4, Mr. Cate.

A. Exhibit Number 4 is the east/west arbitrary seismic line taken from the same database. It shows the location of the Pruet No. 1 Chunn 12-10 well on the crest of the productive structure. Again, the top of the Smackover is depicted by the light blue line. Obvious east to west reversal is shown by this line. And, again, the vertical green lines represent the West Robinson Creek Field limits as proposed today.

Q. All right, sir. So to sum up your testimony thus far, you have the two points of well control and the two arbitrary seismic lines that have allowed you to depict this structure for the Chunn well as you have shown it on your Exhibit Number 2; is that correct?

A. That is correct.

Q. All right, sir. Let's now type the Smackover Oil Pool that we are asking the Board to include in these field rules, and you have done that on your Exhibit 5, so turn to that exhibit and describe the oil pool we are asking to be set up in this new field.

A. Exhibit Number 5 is the Type Log, which is the Pruet, Chunn 12-10 well. This is the array induction

density/neutron log of Schlumberger. The top of the Smackover is depicted at 14,464 feet. The base of the Smackover is depicted at 14,895 feet. That interval is what we are proposing to be the Smackover oil pool for this field. The well is currently producing from a lower -- a portion of the lower Smackover at 14,747 to 762 feet. That interval was completed flowing 276.6 barrels of oil a day, 100 Mcf gas a day, zero water. It was on a 13/64th-inch choke, 711 pounds, with a gas/oil ratio of 362 to 1.

After this lower interval depletes, the well will then be completed in the upper or very top of the Smackover as shown on the Type Log.

Q. All right, sir.

MR. WATSON: Next witness is David Hilton. If you would pass the mike down to David, please.

DAVID HILTON,

having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Hilton, you have appeared before this Board and have on file an affidavit of your qualifications as a petroleum engineer; is that correct?

A. That is correct.

Q. Have you prepared exhibits in support of establishing this new field?

A. Yes, I have.

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

MR. ROGERS: He is so recognized.

Q. Let's turn in the booklet of exhibits, Mr. Hilton, to your Exhibit Number 6 and describe what is shown on that exhibit, please, sir.

A. Exhibit Number 6, page one, is a directional plot of the wellbore from Chunn 12-10. The well was originally permitted and intended to be drilled as a vertical well. During the drilling of the well, the wellpath took a Southwest turn to kind of almost a due South turn and was getting away from our primary objective and through the -- we ask the Board for permission to intentionally deviate the well back to a normal path, which is depicted as a blue circle in there referenced as Target, that was a target just to turn the well around. The red line is the actual path of the wellbore after the directional tools were picked up and we made a hard 180-degree turn to try to get back up into the Northwest quarter. The actual wellbore stopped at the Southeast quadrant of that target circle.

Q. All right, sir. On Page 2 of that Exhibit Number 6?

A. Page 2 is the last page of the data from the complete directional survey. The full directional survey is on file with the Board. This Page 2 gives us the bottom hole location, the final bottom hole location at a measured depth of 14,450 feet as being 81.9 feet North of the original surface location and 118 feet East of the surface location.

Q. And that is depicted on Mr. Cate's Exhibit Number 1, the surveyor's plat, that bottom hole location; is that right?

A. Yes, sir.

Q. All right. Let's turn to the next exhibit, Exhibit Number 7, the OGB-9. Tell us about the test on this well, Mr. Hilton.

A. Exhibit 7, Page 1 and Page 2 is the first production report, Form OGB-9, for the initial test of Chunn 12-10. The well was initially tested as Mr. Cate previously testified at a rate of 276.6 barrels of oil a day, 100 Mcf of gas, on a 13/64th adjustable choke, 711 psi flowing tubing pressure.

Q. All right, sir. Exhibit 8 now is a report from FESCO, Limited on the nature of the hydrocarbons in the reservoir. Summarize that report for us, please, sir.

A. Exhibit 8 is the cover letter and initial data from the PVT data analysis that was performed on the Chunn 12-10. This was a recombination analysis. Separator liquid samples and separator gas samples were taken and recombined in

reservoir conditions to determine the reservoir fluid phase.

The lower -- in the bottom paragraph on Page 1 of the letter, the bubble point pressure was observed to be from FESCO Labs at 1660 psig at a temperature of 270 degrees Fahrenheit. 270 degrees Fahrenheit is the reservoir temperature for the Chunn 12-10.

Q. And the nature of the hydrocarbons in the reservoir?

A. The -- any bottom hole pressure greater than 1660 psi would yield that we have an undersaturated oil phase in the reservoir.

Q. And this complete is filed routinely with the Board's staff; is that right?

A. That is correct.

Q. The complete report?

A. That is correct.

Q. All right. Go to your Exhibit Number 9, Mr. Hilton.

A. Exhibit 9 is the static -- 24-hour static bottom hole pressure survey performed on the Chunn 12-10 during the initial -- following the initial 72-hour flow period. The bottom hole pressure was measured with two bottom hole digital gauges, one gauge -- two gauges were used for quality control. Each -- one gauge measured 6290 psi. The other gauge measured 6300 psi, both well above the bubble point, which indicates the fluids phase in the reservoir to be an undersaturated oil.

Q. All right, sir. Your next exhibit?
A. Exhibit Number 10 is a daily production graph of production from the Chunn 12-10 since it was placed on production. The flowing tubing pressure is depicted in the green. Purple is the barrels of oil per day. The blue is the Mcf of gas per day. And the well has not made any water to date.
Q. All right, sir.
A. To date, we have produced over 17,000 barrels of oil from this reservoir.
Q. And your Exhibit Number 11 is a tabular summary of that production?
A. That is correct.
Q. Would this correspond with the graph shown on Exhibit Number 10?
A. Yes. It was included to support the graph.
Q. All right, sir.

MR. WATSON: Mr. Rogers, I would ask that you receive into the record these hearing Exhibits 1 through 11 and the testimony of Mr. Cate and Mr. Hilton.

(Whereupon, Exhibits 1-11 were offered into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibits 1-11 were admitted into evidence.)

Q. I'll ask both of you gentlemen starting first with you, Mr. Cate, if the Board approves this petition and establishes a new oil field as we have requested of West Robinson Creek Field and promulgates Special Field Rules and declares the Chunn 12-10, 160-acre unit that you described as a production unit for this new field, will that promote orderly development in the area, prevent waste and protect correlative rights, Mr. Cate?

A. Yes, it would.

Q. Mr. Hilton?

A. Yes, it would.

MR. WATSON: I tender these witnesses to you, Mr. Rogers, and members of the staff for any questions you have.

MR. ROGERS: Any questions from the staff?

DR. TEW: No questions.

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

MR. WATSON: Thank you.

MR. ROGERS: The next item in is Item 11, Docket No. 02-08-11-04A, petition by Pruet Production Company.

MR. WATSON: Again, I'm Tom Watson representing Pruet Production Company and I have two additional witnesses. I'll remind Mr. Cate and Mr. Hilton that they are under oath with your permission, Mr. Rogers.

MR. ROGERS: Yes, sir.

MR. WATSON: I have two new witnesses. I would like to have them sworn in.

MR. ROGERS: State your name and address.

THE WITNESS: Matt James, Jackson, Mississippi.

MR. ROGERS: You, sir?

THE WITNESS: Zachary Hare, Grove Hill, Alabama.

MATT JAMES AND ZACHARY HARE,

having been first duly sworn, were examined and testified as follows:

MR. WATSON: Mr. Rogers, let's, for purposes of the hearing, consolidate Items 11 through 14.

MR. ROGERS: The request is granted.

MR. WATSON: I have prefiled Affidavits of Notice in these consolidated items and ask that those Affidavits of Notice be admitted into the record.

(Whereupon, the affidavits of notice were offered as evidence.)

In these consolidated items, Mr. Rogers, we are asking the Board to establish a new oil field in Monroe County to be named the Excel Field.

We are asking you to reform the Shumack 3-7 unit from a 40-acre wildcat drilling unit to 160-acre production unit in this proposed field.

We are asking that the Board force pool, without imposition of the risk compensation penalty, tracts and interests in the proposed 160-acre unit. And then we are asking the Board to approve an exceptional location for the Shumack 3-7 as it is reformed in this proposed Excel Field.

MR. ROGERS: Mr. Watson, the Affidavits of Notice are admitted.

(Whereupon, the Affidavits of Notice were admitted into evidence.)

MR. WATSON: All right.

MR. ROGERS: Go ahead. You may proceed.

DAVID CATE,

having been previously duly sworn, was examined and testified as follows:

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Cate, have you prepared exhibits in support of these consolidated petitions that I have just described?

A. I have.

MR. WATSON: And, Mr. Rogers, having prepared exhibits and having testified and having on file an affidavit of his qualifications as a petroleum geologist, I tender him as an expert witness for giving testimony and

relating to the proposed Excel Field.

MR. ROGERS: He is so recognized.

Q. (BY MR. WATSON:) All right. Mr. Cate, would you please turn in the booklet of exhibits to the first exhibit and describe what is shown on that exhibit, please, sir.

A. Exhibit Number 1 is a surveyor's plat showing the proposed Excel Field limits that we are bringing here today. That is outlined in red. And the areas composed -- comprised of the Northwest quarter of Section 2, all of Section 3, and all of Section 4 of the Township 5 North, Range 7 East, Monroe County, Alabama.

Q. All right, sir. And your Exhibit Number 2?

A. Exhibit Number 2 -- 2-A, actually, is the surveyor's plat showing the location of the Pruet Production Company No. 1 Simpson 4-9 well. That well is contained in a 160-acre drilling unit comprised of the Southeast quarter of Section 4, Township 5 North, Range 7 East.

The Simpson 4-9 location is a regular location in that -- within that area, and we are recommending today that that drilling unit be converted to 160-acre production unit.

Q. All right. Now, let's go to Exhibit 2-B. This is the 40-acre wildcat we are asking the Board to reform to 160-acre production unit?

A. That is, again, the surveyor's plat showing the

location of the Pruet Production Company's No. 1 Shumack 3-7 well. Currently, this well is contained in a 40-acre drilling unit composed of the Southwest quarter of the Northeast quarter of Section 3, Township 5 North, Range 7 East, Escambia County. Both the surface --

Q. That is Monroe County.

A. Monroe County.

Q. We skipped counties here.

A. Okay. Both the surface and the bottom hole locations are shown on this surveyor's plat. The bottom hole location is 638 feet from the west line of the 40-acre unit and 492 feet from the south line of the 40-acre unit. That would be a regular location within the 40-acre unit, but it would be an exceptional location in the proposed production unit, consisting of the Northeast quarter of Section 3. So the location, as approved in that unit, would be an exception.

Q. And that is because in our proposed Special Field Rules for the Excel Field we are suggesting that all wells be located -- and that is Rule 3 -- be located at least 660 feet from every exterior boundary of the unit; is that correct?

A. That is correct.

Q. All right, sir. Let's go to your next exhibit now, this is Exhibit Number 3, Mr. Cate. Tell us what the exhibit is and then describe the information shown on it, please, sir.

A. Exhibit Number 3 is a structure map contoured on top of the Smackover formation on 100-foot contour intervals. It shows the previously discussed units in 2-A and 2-B exhibits. It also shows our proposed field limits outlined in yellow. The structure in this field is south dipping. We have an oil/water contact on the south side at -12,186 and the field is contained, as we map it now, is contained entirely within those units.

Q. And contained completely within the proposed field limit outline?

A. Field limit, yes, uh-huh.

Q. All right, sir. You are showing additional wells other than the subject wells of this hearing that have been drilled in the proposed field area, and I'm assuming that those wells were used as control points for your mapping?

A. We used those control points, all four well control points, plus we have knowledge of, but no possession of, a 3-D survey that was shot across this area, and it also covers a much larger area. We were able to review the 3-D seismic and determine that it's of good quality and reliable for mapping. And our structure map on Exhibit 3 therefore reflects both the subsurface control and the 3-D seismic data.

Q. Very good. All right, sir. Turn to your Exhibit Number 4 and let's describe for Mr. Rogers and the staff the

proposed Smackover Oil Pool for the Excel Field.

A. Exhibit Number 4 is the Type Log and it comes from the No. 1 Simpson 4-9 well. This is Schlumberger's Platform Express log. It shows the top of the Smackover at 12,414 feet, the base of the Smackover at 12,622 feet. That interval is what we propose to be the Smackover Oil Pool for the Excel Field.

This well was completed in the middle portion of the Smackover as shown in green at 12,498 to 536 feet. That interval flowed 184.2 barrels of oil per day, 166.2 Mcf of gas per day, 8.1 barrels of water on a 10/64ths-inch choke, 843 pounds, and the gravity was 40.4 degrees.

Q. All right, sir. Now, your Exhibit 5 is a cross-section. Describe that outline of cross-section for us and tell us what is shown on this exhibit.

A. Exhibit Number 5 is the east/west cross-section that was shown previously. The Pruet Production Company No. 1 Simpson 4-9 well is on the left side or west side. The No. 1 Shumack 3-7 well is on the right side or the east side.

This cross-section shows the formational boundaries from the Haynesville, Buckner, Smackover, and into the Paleozoic basement. It also shaded in green the current productive interval that is correlative in both wells. The perforated intervals are so noted on the depth track of each log.

Q. All right, sir. Is it your testimony, Mr. Cate, that both these wells are completed in a common Smackover oil pool?

A. In my opinion, they are.

Q. All right, sir.

MR. WATSON: My next witness, Mr. Hilton, has on file an affidavit of his qualifications as a petroleum engineer, previously testified before the Board.

DAVID HILTON,

having been previously duly sworn, was examined and testified as follows:

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Hilton, are you familiar with the consolidated items that we are hearing today, and have you prepared exhibits in support of establishing the Excel Field, reforming the unit, asking for the exceptional location?

A. Yes.

MR. WATSON: And I tender him as an expert for giving testimony on this item, Mr. Rogers.

MR. ROGERS: He is so recognized.

Q. (BY MR. WATSON:) Start then with your Exhibit Number 6, Mr. Hilton, and tell us what is shown there.

A. Exhibit 6 is the final gyro directional survey for

the No. 1 Simpson 4-9. This exhibit shows that the bottom hole location is .33 feet from north of the surface location and .47 feet west of the surface location. This directional survey is in support of the plat previously testified to by Mr. Cate on the producing unit for -- producing plat for the Simpson 4-9.

Q. Putting the bottom hole location 492 feet from the south line and 630 feet --

A. No, sir.

Q. Not 630 -- I'm looking at the wrong plat.

A. Exhibit 2-A.

Q. 2-A.

A. Which would be 660 feet from the --

Q. Okay. What is that location based on Mr. Cate's plat? I turned to the wrong one.

A. It's 660 feet from the east line and 660 feet from the north line of the Southeast quarter of Section 4.

Q. All right, sir.

A. Would be the location.

Q. All right, sir. Let's go to your next exhibit, Mr. Hilton, your OGB-9.

A. Well, the next exhibit is Exhibit 7, which is the directional, the same gyro directional survey for the Shumack 3-7. This directional survey is supplied to support the bottom hole location as depicted on Mr. Cate's Exhibit 2-B

for the -- showing the bottom hole location being 62 feet north and 88 feet east of the service location.

Q. That is the one I was trying to direct your attention to first.

A. Yes, sir.

Q. All right, sir. And your next exhibit, Mr. Hilton?

A. Exhibit A, Page 1 and 2 is the first report -- first production report OGB-9 for the Simpson 4-9 No. 1, the discovery well for the field. It shows an initial production rate of 184.2 barrels of oil a day, 166.2 Mcf of gas, on 10/64ths adjustable choke, with 843 psi flowing tubing pressure.

Q. All right, sir. Exhibit 9?

A. Exhibit 9 is the first production report, OGB-9 for the No. 1 Shumack 3-7, shows an initial test rate of 293.4 barrels of oil per day, 322 Mcf of gas, on a 13/64th choke, with 1,028 psi flowing tubing pressure.

Q. All right, sir. And now your Exhibit Number 10, the FESCO report?

A. During the initial -- following the initial test or during the initial 72-hour production test on the No. 1 Simpson 4-9, separator gas and liquid samples were taken for recombination PVT analysis. This was performed by FESCO Labs. Exhibit Number 10, pages 1 and 2, is the cover letter for the full PVT report, which is on file with the Board.

This PVT analysis determined that the bubble point pressure for this reservoir was 3525 psig with a reservoir temperature of 230 degrees Fahrenheit.

Again, this would -- any pressure that -- of the reservoir above this 3525 psi would be an undersaturated oil phase in the reservoir.

Q. All right, sir. Exhibit Number 11?

A. Exhibit 11 is a 24-hour static bottom hole pressure measurement for the Simpson 4-9 conducted at the end of the initial 72-hour production test. Again, two gauges were used for quality control. One gauge measured 4489 psi. The other one was 4470 psi. These pressures were above the bubble point. The pressure is determined in the PVT analysis and therefore is an undersaturated oil phase in the reservoir.

Q. All right, sir. Exhibit 12?

A. Exhibit 12 is the 24-hour static bottom hole pressure measured at the end of the initial flow period on the Shumack 3-7 No. 1. The 24-hour shut-in pressure was measured to be 5,431 psi, which is, again, higher than the bubble point pressure, so therefore it's an undersaturated oil phase in the reservoir.

Q. All right. Now, let's talk about the production, and that is on your Exhibit 13 of the Simpson?

A. Yes, sir. Exhibit 13 is the daily production graph for the Simpson 4-9. The tubing pressure is depicted green

by the green line. The oil is by the purple line, and gas is by the blue line, and water by the orange. The well was initially flowing. It was placed on pump in late May of 2010. The pressure is shown as 3800 pounds, plus or minus. At that point, the flowing -- it's actually placed on hydraulic jet pump, which is just the surface pump pressure.

To date, the well has produced 10,387 barrels of oil, 5,000 Mcf gas, and a little over 7700 barrels of water. It is currently producing at a rate of around 23 barrels of oil a day, less than 5 Mcf of gas, and 38 barrels of water a day.

Q. All right. Let's look at the production on the Shumack 3-7, Exhibit Number 14.

A. Shumack Exhibit Number 14 is a daily production graph for the production of the Shumack 3-7. The Shumack 3-7 is flowing and is currently flowing. The flowing tubing through them as depicted by the green line, the oil production by the purple, and the gas is depicted in blue. The well does not make any water at this time. The Shumack is -- has currently made over 10,800 barrels of oil, right at 15,000 Mcf of gas. And at the time of this graph, was producing a little over 200 barrels of oil, 280 Mcf. The production rate is currently, as of this morning's report, has dropped into the mid 100s.

Q. All right, sir. And your Exhibit 15, Mr. Hilton, is

a tabular depiction of that production that is shown on your production graph?

A. That is correct. Exhibit 15 is the tabular data for the Simpson 4-9 in support of that graph. And Exhibit 16 is the tabular data for the Shumack 3-7 in support of that graph.

Q. All right, sir.

MR. WATSON: Now, Mr. Rogers, the final item for Pruet Production Company is a forced pooling application, without the imposition of a risk compensation fee, for the Shumack 3-7 well. It's permit 16340. It's on the 160 -- proposed 160-acre production unit consisting of the Northwest quarter of Section 3, Township 5 North, Range 7 East, Monroe County, Alabama. This is a unit we are reforming from 40 to 160. And there is outstanding unleased interest in this proposed 160-acre production unit and the number that is 1.32 net mineral acres or approximately 0.825 percent of the unit, the owners of those interests have not yet volunteered to integrate, pool or lease their interest.

I have two landmen that I need to qualify. Neither have appeared before this Board, and both have had contact with these owners that have been identified by title research of Mike Estep. And my first witness is Zach Hare.

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Hare, would you briefly give Mr. Rogers and members of the staff your educational background and your experience, please, sir?

A. Graduate of Auburn University. I work for Pruet Production currently. I am a area timber man of -- for Pruet.

Q. And are you a member of any professional association of landmen?

A. AAPL, American Association For Petroleum Landmen, and the MAPL, Mississippi Association of Petroleum Landmen.

Q. And have you been involved in attempting to secure leases from the people that we are about to identify for this proposed Shumack 160-acre unit?

A. Yes, sir.

MR. WATSON: Our other land witness is Matthew R. James.

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. James, give Mr. Rogers and the staff a brief summary of your educational background and your work experience.

A. Graduated from Southern Methodist University in 1999, also got my MBA there in 2004. Previously worked for Frost Bank in Dallas, Texas. And I have worked for Pruet Oil

Company for the last three years and have been a landman.

Q. And are you familiar with and have you been involved in attempting to secure leases from the unleased parties that we are about to identify in this 160-acre unit?

A. Yes.

MR. WATSON: I tender Mr. Hare and Mr. James as expert petroleum landmen for giving testimony in this item, Mr. Rogers.

MR. ROGERS: They are recognized as petroleum landmen.

Q. (BY MR. WATSON:) Let's first state for the record that we have four identified owners who have not yet leased their tracts or interest; is that correct, Mr. Hare and Mr. James?

A. (BY MR. HARE:) Yes.

A. (BY MR. JAMES:) Yes.

Q. I would like to start with the first individual that you gentlemen have been trying to get a lease from, and that is Freddy M. Folks. And, Mr. James, I would like for you to tell Mr. Rogers and the members of the staff what efforts you have made to get a lease from Mr. Freddy M. Folks of Mexica, Alabama.

A. On July 29th of 2010, after a couple of months of trying to locate his residence, we located where he did live. And we went to his house, knocked on his door, told him who

we were, what we were doing, and he said he was aware that we were leasing in the area, he was aware of his mineral interests, but he had no interest in leasing. We then offered him a hundred dollar lease bonus with a 3/16th royalty with a three-year lease. He let us know that we were wasting our time. He said he didn't have enough land that it would make any difference to him, that it wouldn't be beneficial and he had no interest in leasing. And he also let us know that he had another mineral interests in another county that he had leased and that he was drawing royalties from, but he was not interested in leasing this mineral interest.

Q. And I'm showing his net mineral interest to be 0.16 net mineral acres; is that what you understand?

A. That is correct.

Q. So is it your testimony to this Board that you made a good faith effort to lease Mr. Folks?

A. Yes, sir.

Q. And is it also your testimony that he is a knowledgeable landowner and knew what you were proposing and refused to lease?

A. Yes, sir.

Q. Next is Ginger Lumpkin from Panola, Texas.

DIRECT EXAMINATION BY MR. WATSON, CONTINUING:

Q. Mr. Hare, do you want to tell us about your efforts to get a lease from Ginger Lumpkin?

A. Yes, sir. Ms. Lumpkin is one of six heirs to Julia B. Flowers. There were four heirs local. We went and talked to one heir. She gave us a phone number and an address. The phone number was not any good, we could not contact her via the phone. So I mailed a lease to her to Panola, Texas.

After that, we did acquire a good phone number. I called her. She did obtain the lease. She looked through it. And I mailed the lease on February 22nd. I spoke to her a week later. She did receive it. She said that she just had been busy, had not had time to read the lease, talk about the lease. She was going to discuss it with her family. So I told her if she had any questions or any comments, she had my phone number, she had my e-mail address, she could contact me, it was no problem.

I made several phone calls later, I did not speak with her. On July 22nd, I did talk to her again. She stated she had been busy, had not had time to look at it. I told her that we had four family members signed up that if she needed any questions, they could answer them, I could answer them, it was no problem. She said she would try to get it back in the mail as soon as possible.

Again, I talked to her on August 16 after I did

not receive the lease. She again said she was busy, she would try to talk to her family about it. I did not receive the lease. And the last conversation on January 31st, I did talk to her. She said that she would try to get it back in the mail and try to talk to her family about it, and that was the last conversation.

Q. Have you received that lease from Ms. Lumpkin?

A. I have not.

Q. If you receive that lease from Ms. Lumpkin after this Board takes action, assuming it will take action on our application, and she signs a lease, will Pruet treat her as a leased party or a nonleased party?

A. A leased party.

Q. All right. So she has really plenty of time if she wants to return the lease and have her interest carried, but since she has been -- your first contact was February of 2010, right?

A. Yes, sir, February 22nd.

Q. And nothing has come in the mail and she has been very busy, so we are asking the Board to force pool her interest.

The next lady who owns an interest -- and let me say this for the record. Ginger Lumpkin owns 0.06 net mineral acres; is that right, Mr. Hare?

A. That is correct.

Q. The next lady that we have identified and has not leased, Jeannie Mastres, also owns 0.06 net mineral acres; is that correct?

A. That is correct.

Q. Let's tell Mr. Rogers what you have done to try to get a lease from Ms. Jeannie Mastress and tell us where she lives?

A. Ms. Mastress is one of six heirs of Julia B. Flowers. We obtained an e-mail address and a mailing address from one of the local heirs. The e-mail address was invalid, could not get anything through e-mail, so I finally just mailed a contact letter to France. It was just an address I had that they had given me. I mailed it. It did get to her. She actually sent me an e-mail back that started the correspondence via the e-mail only. The first e-mail said she received my letter and would like to hear more about the lease. The second e-mail I sent her -- the first e-mail I sent her back was it was good to hear from her, I gave her her net acres, which was .06, I gave her a list of all the family members that owned under that tract, and I actually told her who we had received leases from in her family. And the terms were -- I told her I would send her a $50 bonus payment for signing the lease, 3/16th royalty, and a hundred dollars per net acre on a two-year extension.

I also told her I would reimburse her for any

notary fees or any expenses she incurred in getting the lease signed. She e-mailed me back, said she would like to have a rough estimate of the royalties she could expect to receive. I told her that would depend on a number of factors. I told her $5 a month possibly. She sent me an e-mail back, she said that considering the level of royalties and the risk of depreciation, she would ask for a bonus of $1,500, the property had been appraised for 22,000 and the damage would take 50 years to pay for a loss.

So I talked to my broker and he said we could not pay that at this time, so I sent her an e-mail back relaying that information. And then I sent her another e-mail asking for a phone number where I could contact her and explain further of what we was trying to accomplish, and I've never heard from her, never received a correspondence.

Q. And her address is 9 Rue Renè Cassin 11400 Castelnaudary, France; is that correct?

A. That is correct.

Q. I butchered that, but that is somewhere in the range of reasonableness.

So you feel like that you had a full disclosure with her, she had ample opportunity to ask you any questions; is it fair to say that her demands for a lease were -- exceeded Pruet's ability to pay based on what she wanted?

A. Yes, sir.

Q. The last person on the list of unleased owners is Ronald Earl Rigsby, he lives down at Excel, Alabama. And am I correct in stating that he owns 1.04 net mineral acres?

A. Yes, sir.

Q. All right. Let's talk about Mr. Rigsby. And I think both you and Mr. James have had contact with Mr. Rigsby, and I would like to start with the history of contacts by a prior broker with Mr. Rigsby and the fact that he did lease at one point in time, Mr. Hare.

A. During a period at work, I came across a lease that Mr. Jeff Miller had signed with Mr. Rigsby.

Q. Who is Jeff Miller?

A. He is the one who signed the lease on August 21, 2000 -- or he had approached Mr. Rigsby or signed the lease on August 21st, 2008.

Q. So a landman approached Rigsby in 2008 for a lease. Mr. Rigsby signed that lease in 2008?

A. That is correct.

Q. And now you are looking at curative matters and now go on and tell Mr. Rogers what you found when that lease was examined.

A. It was a homestead and his wife did not sign the lease. So I approached him with the -- and being unaware of the prior -- I was aware of the prior lease, but I did not know the terms except for the lease I had. So I approached

him with a new lease with 3/16th royalty, $100 bonus money and two-year extension for $100.

And when I arrived at the house, talked to him, I showed him the lease, showed him where the royalty was at. He said that they had received 5/16th royalty and a $300 bonus payment and no extension of two years.

Q. And that was the 2008 lease he was talking about?

A. Yes, sir.

Q. Okay. Was that, in fact, a true statement by Mr. Rigsby?

A. No, sir. Well, at that time I did not know.

Q. All right, sir. But you have later found out that Mr. Rigsby was not truthful about what he had done, at least for the royalty?

A. Yes, sir.

Q. All right. Go ahead.

A. I told him I could not offer any more at that time and so I left. I talked to my broker, made a follow-up appointment with Mr. and Mrs. Rigsby. At that time I offered them $300 bonus for a three-year lease with a 1/5th royalty. They kept referring to 5/16ths that they were given earlier. So I then went up to 1/4th royalty, $300 signing bonus with no extension. And, again, they turned that down.

Q. Were you still hearing about the 5/16ths royalty that they had been given in that first lease that was no good

because the wife didn't sign?

A. Yes, sir.

Q. Did you talk to that broker and ask him whether or not he offered them a 5/16ths royalty?

A. Yes, sir.

Q. Do you have a copy of that lease that he signed?

A. I do.

Q. Does it say 5/16ths?

A. It says 3/16ths.

Q. But Mr. Rigsby insisted that he wanted a higher bonus than you were offering?

A. Yes, sir.

DIRECT EXAMINATION BY MR. WATSON, CONTINUING:

Q. Mr. James, did you have any contact with the Rigsby's?

A. Yes. On July the 21st, 2010, I called Mr. Rigsby to try to set up a meeting. He told me I could come by that evening at 8:00, but that he was going to tell me that he needed 5/16ths royalty as well.

I went and met with he and his wife and offered them $300 an acre with a quarter royalty for a one-year lease, which he declined. I then upped the offer to $500 an acre for a quarter royalty for a one-year lease. He declined that. He said he would do $500 an acre with a quarter

royalty for a six-month lease.

I didn't have the authority to do that, so I stepped out and called Billy White with Pruet and spoke with him. He let me know that six months might be too short, so to try to get nine months. I came back in and offered Mr. Rigsby $500 an acre per quarter royalty for a nine-month lease, which he declined, and I did lower it and offer him the six months that he requested.

At that point, he said he would put the decision in his wife's hands. And she said that the 5/16ths was important to them and they would need that. So at that point, I left their house.

Q. So both you gentlemen feel like that you had ample opportunity to discuss on terms that, at least Pruet considered reasonable, opportunities for these folks to lease, they understood what you were asking them to do, you understood their counter and you could not reach an agreement; is that right?

A. Yes, sir.

Q. Is that right, Mr. Hare?

A. (BY MR. HARE:) Correct.

Q. So with these parties that we are asking the Board to force pool without the imposition of risk compensation penalty, Freddy Folks, Ginger Lumpkin, Jeannie Mastress, and Ronald Earl Rigsby and his wife, was it your testimony to

Mr. Rogers and this staff that you have made a diligent effort to consummate a lease agreement with those parties that I have just named and you have been unsuccessful in doing so? Mr. James?

A. (BY MR. JAMES:) Yes.

Q. Mr. Hare?

A. (BY MR. HARE:) Yes.

Q. I will ask all of my witnesses if the granting of these consolidated petitions establishing this new Excel field, reforming the 40-acre unit to 160-acre production unit, naming a production unit for the second well and force pooling these outstanding tracts and interests, will, in your opinion, promote orderly development, prevent waste and protect correlative rights, Mr. Cate?

A. (BY MR. CATE:) In my opinion, it would.

Q. Mr. Hilton?

A. (BY MR. HILTON:) Yes, in my opinion, it would.

Q. Mr. James?

A. (BY MR. JAMES:) In my opinion, it would.

Q. And Mr. Hare?

A. (BY MR. HARE:) In my opinion, it would.

MR. WATSON: If I didn't introduce these exhibits into the record, I do so now, Mr. Rogers.

MR. ROGERS: The exhibits are admitted.

MR. WATSON: And I tender these witnesses for

any questions you have of any of them.

MR. ROGERS: Any questions?

DR. BOLIN: The staff has no questions.

MR. ROGERS: I'll add one comment, and that is that we appreciate -- the Board and staff appreciate the work that the landmen like you, Mr. James and Mr. Hare, do because sometimes we have to deal with issues, Mr. Watson knows this well, where parties claim that they didn't find people or didn't make a diligent effort to find people, and then that puts the Board in a position of having to determine whether a diligent effort was made. And that is important because if you don't find these people, then they may not ever receive any revenue from the well and then basically the due process is potentially violated and so we deal with those issues a lot.

It is obvious that Pruet has hired landmen, they take that seriously and made this extra effort to find these people, and we were commenting on here that we appreciate that work and we know it took a lot of work to find and to locate all these people. Thank you.

MR. WATSON: Thank you, Mr. Rogers.

MR. ROGERS: Anything else, Mr. Watson?

MR. WATSON: That is all on these items.

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

The next item in is Item 16, Docket No. 02-08-11-09B, a petition by Midroc Operating Company.

MR. WATSON: I am Tom Watson for Midroc Operating Company and I have one witness. I would like to have him sworn in, please.

MR. ROGERS: Would you state your name and address?

THE WITNESS: Jerry Elgin, Shreveport, Louisiana.

JERRY ELGIN,

having been first duly sworn, was examined and testified as follows:

MR. ROGERS: Thank you.

MR. WATSON: Mr. Rogers, this is a petition by Midroc Operating Company, an amended petition asking the Board to approve exceptional bottom hole location for the Cedar Creek Land & Timber 13-12 sidetrack on a 160-acre production unit, Smackover oil pool in the Little Cedar Creek Field, Conecuh County, Alabama. This item comes to you on publication on -- just a minute. I have an Affidavit of Notice on this item, I would like to have it admitted into the record.

MR. ROGERS: The affidavit is admitted.

(Whereupon, the Affidavit of Notice was

admitted into evidence.)

MR. WATSON: I have my witness Jerry Elgin who has appeared before you on numerous occasions as a petroleum engineer.

DIRECT EXAMINATION BY MR. WATSON:

Q. Mr. Elgin, are you familiar with the petition I have just called here relating to exceptional location on Cedar Creek Land & Timber 13-12 sidetrack?

A. Yes, I am.

Q. And have you prepared exhibits in support of asking the Board to grant an exception for that well?

A. Yes, sir, I have.

MR. WATSON: I tender Mr. Elgin as an expert witness, Mr. Rogers.

MR. ROGERS: He is recognized as an expert.

Q. (BY MR. WATSON:) I have handed up your exhibits to Mr. Rogers and staff. If you would, Mr. Elgin, let's look at your first exhibit and tell Mr. Rogers and staff what is shown there, please.

A. Exhibit 1 is a surveyor's plat of the Cedar Creek Land & Timber 13-12 sidetrack. It's Permit No. 16175-B-1. This well was originally drilled as the Cedar Creek Land & Timber 13-13 well, which was Permit No. 16175-B. The Cedar Creek Land & Timber 13-13 encountered the Smackover

formation; however, upon completion, it produced water. We put it on a pump and tested it for a period of approximately two months, and it continued to produce around 4 or 500 barrels of water per day on a pump.

The decision was made to sidetrack the 13-13 to the 13-12, hence the ST designation, and to -- with a target at the base of the Smackover formation of 660 feet from the North and 660 feet from the West line of the Southwest quarter of Section 13.

During drilling operations, the well inadvertently deviated and it wound up at a point 628 feet from the North line; however, it was 664 feet from the West line of that Southwest quarter Section 13.

Q. And that is a true bottom hole well. Look on that exhibit and tell us in the little insert there the distances to the nearest unit boundary for the Smackover oil pool as defined in Little Cedar Creek?

A. The inset is -- shows where the well encountered the top of the Smackover formation, which was 661 feet from the North line and 665 feet from the West line of the 160-acre unit.

Q. And that is a productive interval that we will be producing, but we are required by this Board to ask for an exception for the closest point to all the exterior boundaries, and that is what you have just described, 628

from the North boundary of that unit, correct?

A. That is correct.

Q. All right. Your Exhibit Number 2, Mr. Elgin?

A. Exhibit Number 2 is a section of the open hole log that was run on the well on November 25th of 2010. The second page of Exhibit 2 shows the section of the log showing the top of the Smackover formation at 10,167 feet, and the base of the Smackover formation at 10,262 feet, and the perforated interval at 10,216 to 10,234 feet.

Q. And your Exhibit Number 3?

A. Exhibit Number 3 is the OGB-9, which was filed on this well reflecting a test that was conducted on December 20th of 2010 in which the well produced 349 barrels of oil, 315 Mcf of gas, with 240 pounds of flowing tubing pressure on a 30/64ths-inch choke.

Subsequent to filing this form, we discovered that the final flowing tubing pressure had not been included on the original form, and so I have with me a revised form to file with the Board.

Q. All right, sir. And your Exhibit Number 4?

A. Exhibit Number 4 is the directional survey, which was done by Multi-Shot Directional Services. It reflects the true bottom hole location at the various depths. This survey was conducted all the way to the top of the Smackover formation, at which point we pulled out of the hole and ran

conventional coring tools in the hole.

Q. And Exhibit Number 5?

A. Exhibit Number 5 is the interpolation based upon the Multi-Shot survey showing the true bottom hole location at various points, including the top of the Smackover, the perforated interval, and the base of the Smackover formation. I might point out that the theoretical distance from unit lines assumes that it is a regular section due North-South East-West lines, 5,280 foot section; however, Section 13 is an irregular section which causes a difference between what is reflected on the surveyor's plat and what is reflected on Exhibit 5.

Q. All right, sir.

MR. WATSON: Mr. Rogers, I would ask that you would admit into the record Exhibits 1 through 5 to the testimony of Mr. Elgin.

(Whereupon, Exhibits 1-5 were offered into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibits 1-5 were admitted into evidence.)

Q. (BY MR. WATSON:) And the OGB-9 with the flowing tubing pressure, with your permission, have you sent that on in to the Board?

A. I have it with me.

Q. Okay. We will file that for your records to show that tubing pressure.

Mr. Elgin, if the Board sees fit to grant this petition for this exceptional location for the Cedar Creek Land & Timber 13-12 sidetrack, will correlative rights be protected, waste prevented and orderly development promoted?

A. Yes, it will.

MR. WATSON: I tender Mr. Elgin to the members of the staff and you, Mr. Rogers, for any questions on this item.

MR. ROGERS: Any questions from the staff?

DR. BOLIN: No questions from the staff.

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

The next item in is Item 17, Docket No. 02-08-11-10A, petition by Midroc.

MR. WATSON: This item comes to you on publication notice, Mr. Rogers, and is a petition by Midroc Operating Company asking for an exceptional bottom hole of the Cedar Creek Land & Timber 14-15 well in the Little Cedar Creek Field in Conecuh County, Alabama.

DIRECT EXAMINATION BY MR. WATSON:

Q. I will remind my witness that he remains under oath with your permission. And would ask you, Mr. Elgin, are you

familiar with this well and its location and the fact that we have an exceptional location, and have you prepared exhibits in support of asking this Board to approve this exceptional location for the Cedar Creek Land & Timber 14-15 well?

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

MR. WATSON: And I tender him as an expert for giving testimony in this item, Mr. Rogers.

MR. ROGERS: He is so recognized.

Q. (BY MR. WATSON:) All right. Let's look at your first exhibit, Mr. Elgin, please, sir, your plat. Describe what is shown on there relating to this 14-15 well.

A. Exhibit 1 is a surveyor's plat which shows the surface location and the true bottom hole location for the Cedar Creek Land & Timber 14-15, Permit No. 16237. This well was originally drilled as a vertical well; however, it did inadvertently drift to the Southeast, placing the bottom hole location 417 feet from the South line and 1,241 feet from the East line of the Southeast quarter of that section.

Q. I want you to tell Mr. Rogers and members of the staff, Mr. Elgin, if you would, about what you expected this well to do based on the prior experience in the field, and at what point in the process did you discover that this well is drifting to an exceptional location?

A. Generally speaking, the wells will tend to drift updip in the formation. So we have really anticipated the

well drifting to the North, Northeast, which is the general direction of dip.

We also -- we ran the survey, the drop gyroscopic survey, which is in a later exhibit, at the top of the Smackover formation, and this was the first point at which we realized that it had drifted the opposite direction of what we anticipated.

Q. All right, sir. Your Exhibit Number 2?

A. Exhibit Number 2 is a section of the open hole log on the Cedar Creek Land & Timber 14-15 well which was run on May 14th of 2010. It shows the top of the Smackover formation at 10,186 feet, the base of the Smackover formation at 10,282 feet, and the perforations in the interval 10,222 to 10,266 feet.

Q. All right, sir. And Exhibit 3?

A. Exhibit 3 is the OGB-9 which was filed on this well. It was -- reflects the test date of July 10th of 2010, at which time the well was flowing at a rate of 431 barrels of oil a day, 382 Mcf gas per day, with 450 pounds of flowing tubing pressure on a 25/64ths choke.

Q. Exhibit 4 is a graph of your production?

A. Exhibit 4 is indeed a production profile on the well reflecting production from the test which was conducted in early July of 2010 through the date of which this exhibit was prepared, which was on -- actually, the latest production we

had when it was prepared, which was in early December of 2010. You can see that the well at that point was flowing around 300 barrels of oil per day and around 260 Mcf of gas per day.

Q. All right, sir. Exhibit 5?

A. Exhibit 5 is a drop gyroscopic survey that was run by Scientific Drilling showing the true bottom hole location at various points down to the top of the Smackover at which point we picked up conventional coring tools.

Q. And your final Exhibit Number 6?

A. Final Exhibit Number 6 is the interpolated bottom hole location at various points, the top of the Smackover, the perforated interval, and also the base of the Smackover formation. Again, the theoretical distance from the unit lines assumes a regular section, and Section 14 is close, but not an exact regular location.

Q. This well, looking back at your first exhibit, drifted to the South, Southeast and you anticipate this well would also drift normally to the North?

A. This well should have drifted to the North, Northwest, which would be updip. That is what we anticipated. We did run a pack bottom hole assembly in it with stabilizers near the bit at 30, 60, and 90 intervals, trying to keep it as straight as possible, but it did inadvertently drift.

Q. I notice on your first exhibit, though, it is covered up by our Docket No. indicator there, that the offset well or the nearest well with this exceptional location appears to be a Cedar Creek Land & Timber 23-2 well; is that correct?

A. That is correct.

Q. So it's common ownership across that boundary to the best of your knowledge, or at least it appears to be based on the name of the well?

A. To the best of my knowledge, yes.

Q. All right, sir.

MR. WATSON: Mr. Rogers, I would ask that you receive into the record of this hearing Exhibits 1 through 6 for the testimony of Mr. Elgin.

(Whereupon, Exhibits 1-6 were offered into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibits 1-6 were admitted into evidence.)

Q. (BY MR. WATSON:) Mr. Elgin, would the granting of this petition approving this exceptional bottom hole location for the Cedar Creek Land & Timber 14-15 well prevent waste, protect correlative rights and promote orderly development?

A. Yes, it will.

MR. WATSON: I tender him to you, Mr. Rogers, and members of the staff for any questions you have.

DR. BOLIN: We have no questions.

MR. ROGERS: The staff has no questions. We will review the evidence and make a recommendation to the Board.

Then the next item is Item 18, Docket No. 02-08-11-11A, petition by Midroc.

MR. WATSON: Again, Tom Watson for Midroc Operating Company. And, Mr. Rogers, this item comes to you on publication notice where we are asking the Board to approve an exceptional bottom hole location for the Mary Mack 30-14 well on a 160-acre wildcat drilling unit in the Norphlet formation in Conecuh County, Alabama.

My witness Jerry Elgin is under oath.

DIRECT EXAMINATION BY MR. WATSON:

Q. I remind you, Mr. Elgin, you are under oath for giving testimony in this item. Have you prepared exhibits in support of the exceptional location request for Mary Mack 30-14 well?

A. Yes, I have.

MR. WATSON: I tender him as an expert for giving testimony on this item, Mr. Rogers.

MR. ROGERS: He is so recognized.

Q. (BY MR. WATSON:) Let's look at your first exhibit.

Describe what is shown on that exhibit, Mr. Elgin.

A. Exhibit 1 is a copy of the surveyor's plat that shows the surface location of the Mary Mack 30-14, which is Permit No. 16398 and shows the true bottom hole location of the well. This well was drilled as a vertical well. Again, we would expect the well to walk -- to deviate to the Northwest at this location or Northeast, excuse me, at this location. However, it went the total opposite direction and deviated Southwest. This was, again, an unintentional deviation.

Q. And what is the distances of that bottom hole location?

A. At the true bottom hole location we are 522 feet from the South line and 1,399 feet from the West line of the section.

Q. Now, this being a wildcat -- still 160-acre wildcat drilling units require 660 feet from every exterior boundary; is that correct?

A. That is correct.

Q. Rule 400-1-2-.02(2)(b) of the Oil and Gas Board Administrative Code, and that is the -- we are asking for an exception of that statewide spacing rule, correct?

A. That is correct.

Q. All right. Let's look at your next exhibit, Exhibit Number 2.

A. Exhibit Number 2 is a section of the open hole log on

the Mary Mack 30-14 which was run on December 19th of 2010. It shows the top of the Smackover formation at 11,573 feet, the base of the Smackover formation, which is also the top of the Norphlet formation at 11,769 feet. And this well is perforated currently in a Norphlet formation at 11,770 to 11,790 feet.

Q. Tell Mr. Rogers and members of the staff what Midroc's plans are for this well, Mr. Elgin.

A. Upon approval of the Board, we would like to continue testing the Norphlet for a brief period of time in order to run another bottom hole pressure survey and determine the volumetrics that are involved. And then at that point, we intend to set a temporary plug and complete the well in the top of the Smackover formation.

Q. And as completed in the top of the Smackover formation, would it then be a Little Cedar Creek well?

A. It would be an extension of Little Cedar Creek field.

Q. So if that Smackover is completed, then we would have to come back to the Board and put this unit in the field limits of Little Cedar Creek; is that right?

A. That is correct.

Q. All right. And you stopped testing this Norphlet pending this hearing because of the wildcat nature and the Staff's direction that it not be tested until this exceptional bottom hole location is approved; is that right?

A. That is correct.
Q. Let's look at your Exhibit Number 3, Mr. Elgin.
A. Exhibit Number 3 is OGB-9, which was filed on the Norphlet test. The test was conducted on January 10th of 2011 at which time the well was flowing at a rate of 159 barrels of oil per bay and 620 Mcf gas per day, with 1,700 psi flowing tubing pressure on a 10/64ths choke.
Q. All right, sir. And your next exhibit, Number 4?
A. Exhibit 4 is the drop gyroscopic survey which was run by Scientific Drilling on December 16th of 2010 showing the true bottom hole location at various points along the wellpath.
Q. All right, sir. And finally your Exhibit Number 5?
A. Exhibit 5 is the interpolated bottom hole location based upon that gyroscopic survey. I might point out that we ran the gyroscopic survey just prior to picking up conventional coring tools at the top of the Smackover formation. And this Exhibit 5 gives the true bottom hole location at various points, including the top of the Smackover, the base of the Smackover, the top of the Norphlet, and the bottom hole location. Section 30 is relatively regular and so the theoretical corresponds closely with what is reflected on the surveyor's plat.
Q. All right. Mr. Elgin, when you drill these wells in the area of Little Cedar Creek, you always drill them to the

Norphlet or the basement, do you not?

A. That is correct.

Q. And when you drilled this well to the Norphlet and encountered production, and that is the information you have presented here today, do you have a wildcat producer in the Norphlet formation?

A. That is correct.

Q. All right. All right, sir. And we will have to address the status of that well, but you have just testified that you are going to set a plug and go up and complete the Smackover. So at some point in time before this well is produced without interruption, we will have to address its productive status with this Board; you understand that?

A. Yes, I do.

Q. All right.

MR. WATSON: Mr. Rogers, I would ask that you receive into the record the hearing Exhibits 1 through 5 and the testimony of Mr. Elgin.

(Whereupon, Exhibits 1-5 were offered into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibits 1-5 were admitted into evidence.)

Q. (BY MR. WATSON:) Would the granting of this petition approving this exceptional bottom hole location, Mr. Elgin,

prevent waste, protect correlative rights and avoid unnecessary drilling?

A. Yes, it will.

MR. WATSON: I tender Mr. Elgin to you, Mr. Rogers, and members of the staff for any questions you have.

MR. ROGERS: Questions from the staff?

DR. BOLIN: Mr. Rogers, I have a question.

EXAMINATION BY DR. BOLIN:

Q. Mr. Elgin, looking at your Exhibit 5 and understanding your testimony that you do plan to at some future date test the Smackover, from your Exhibit 5, I gather that that re-completion, if it occurs, would be at a lesser of an exception than it is in the Norphlet; is that correct?

A. That is correct.

Q. So the approval today of that exception would cover any test in the Smackover?

A. That would be our hope, yes.

DR. BOLIN: Okay.

MR. WATSON: Thank you.

MR. ROGERS: Anything else, Mr. Watson?

MR. WATSON: That is all we have, Mr. Rogers.

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

MR. WATSON: Thank you.

MR. ROGERS: The next petition in is Item 20, Docket No. 02-08-11-13, petition by Hillwood Energy Alabama.

MR. DONALD: Mr. Rogers, I'm John Donald and I'm here on behalf of Hillwood Energy Alabama, L.P.

MR. ROGERS: All right.

MR. DONALD: I have prefiled an Affidavit of Notice in this matter and would like to have it admitted into the record.

MR. ROGERS: The Affidavit of Notice is admitted.

(Whereupon, the Affidavit of Notice was admitted into the record.)

MR. DONALD: Mr. Rogers, I have two witnesses and I would ask that they be sworn in, please.

MR. ROGERS: You gentlemen state your names and addresses, please, sir.

THE WITNESS: Byron Keith Shirley, Hazel, Texas.

MR. ROGERS: All right. You, sir?

THE WITNESS: James Kramer, Frisco, Texas.

B. KEITH SHIRLEY AND JAMES KRAMER,

having been first duly sworn, were examined and testified as follows:

MR. DONALD: Mr. Rogers, this is a request by

Hillwood Energy to enter an order approving a 289-acre wildcat drilling unit for the proposed Caldwell 19-15 No. 1 sidetrack well.

The Board in a previous order 2010-41 approved a 572.7-acre exceptional unit for the proposed vertical Caldwell 19-16, later amended to the Caldwell 15 No. 1, and proposed lateral Caldwell 19-15, No. 1A.

In the course of our testimony today, we will tell you why we are asking you to allow Hillwood to proceed under a new order. Our testimony will show today that upon drilling and evaluation of the Caldwell 19-15 No. 1 vertical well and additional seismic acquiring in this area, that to drill the proposed lateral in the Northwest direction would not be at the optimum geological position.

We are now proposing to drill the lateral well in a Northeast direction as well as proposing an exceptional 289-acre wildcat drilling unit.

With that introduction, my first witness, Keith Shirley, is appearing for the first time before you. Mr. Shirley, who is a petroleum geologist, has on file an affidavit of his qualifications, but I would ask him to give you his educational background, work experience and his position with Hillwood Energy.

MR. SHIRLEY: I graduated from Sul Ross State University in 1981, joined a couple of small companies

drilling wells in the Fort Worth Basin. Seven years or so afterwards, I became a consulting geologist and consulted for roughly a decade before I joined Winchester Production. As a consultant, I had been involved in the early shale plays: the New Albany, Barnett, and a little bit of Antrim, and so I had quite a bit of shale experience.

When I joined Winchester, the horizontal play and Barnett had just begun. So I joined Winchester as their geologic manager. Winchester, which was a subsidiary of Progress Energy, then sold. Progress sold Winchester to Encana USA. And Encana USA took over the Barnett shale play with their position they acquired from Winchester. I stayed with Encana.

I worked for Encana for roughly three years, left Encana to work for Encore Production out of Ft. Worth. Encore was developing projects in West Texas, so I went with those folks. And Encore has subsequently sold to Denbury. I did not wish to make the transition to Denbury, and at that time I joined Hillwood, where I am now.

DIRECT EXAMINATION BY MR. DONALD:

Q. Mr. Shirley, are you familiar with the request that has been made today in this petition seeking approval of the 289-acre wildcat drilling unit, as I have described?

A. Yes, I am.

Q. And, Mr. Shirley, did you prepare or have prepared under your supervision and control the geological exhibits in support of the request which I have described today for the approval of the 289-acre wildcat drilling unit as an exception to the Board's statewide rules?

A. Yes.

MR. DONALD: Mr. Rogers, I tender him as an expert for giving testimony in this matter.

MR. ROGERS: He is so recognized.

Q. (BY MR. DONALD:) Mr. Shirley, before we discuss these exhibits which I have handed up to the staff today, would you please give Mr. Rogers and the staff an update on the vertical well, the Caldwell 19-15 No. 1 which has been drilled and its status?

A. That well was spudded on August 16th of 2010 and drilled to a TD of 9,530 feet measured depth. Ran open hole logs, an extensive set of open hole logs; set, 7-inch, 26 pound P-110-casing. The well was cemented to TD and the rig was released October 4th, 2010.

Since then, we have been analyzing the data we acquired. We ran two cores on this well, two 120-foot cores. We have those cores being -- currently still being analyzed by the Gas Research Institute Consortium, and they are doing an exhaustive study on these cores, including XRD, TOC analysis, gas isotope analysis, everything you can imagine is

being done on these cores currently.

Also, while we were drilling the wells, we took samples. Of the samples, we had XRD run, TOC, adsorbed gas, and free gas on our samples. From our sample analysis, we were able to determine the more organic portions in this wellbore.

We have also had our seismic reprocessed and reanalyzed. And just recently, we have done a DFIT Test to try to determine frac gradient in this rock. So in anticipation of drilling it horizontally fracing the well. That is where we stand.

Q. Now, Mr. Shirley, getting to the exhibits, I will ask you to turn to Exhibit Number 1 and point out what is important on this exhibit, please.

A. Exhibit Number 1 shows where we are in the state of Alabama on the surface geologically where we reside -- we are sitting on top of recent and Mesozoic sediments which overlie the Paleozoic sediments, which we are targeting for this well.

Q. This next exhibit, Exhibit Number 2 is OGB-1B, a permit application for the proposed sidetrack well. Please tell Mr. Rogers and the staff why you have included the OGB-1B in your exhibit booklet.

A. This exhibit, especially in the remarks section, shows -- mentions exactly where we would like to put the

bottom hole location of this well. Currently, the surface hole location is in the Southeast quarter of the section and we would like to drill North, Northeastward as close as possible to the Northeast corner of the section.

Q. Now, Exhibit Number 3 is the location plat. Please tell Mr. Rogers and the staff what is shown on this exhibit.

A. Just as the previous exhibit shows, it has -- doesn't -- it states this exhibit actually shows the surface hole location and the direction and bottom hole location we would like to have approval for.

Again, our previous bottom hole location was the Northwest portion of the section drilling in a Northwesterly direction. This bottom hole shows the Northeast section, the corner of the section, and this is the orientation we would like to obtain.

Q. Now, your next exhibit, Exhibit Number 4 depicts a proposed wellbore path with an inset structure map. I understand that you have provided the staff, at their request, an enlargement of this exhibit, which is included in the exhibit booklets which we have submitted today. Please describe to Mr. Rogers and the staff the importance of this exhibit.

A. This exhibit is quite important. It's a montage first showing our vertical wellbore that we have drilled, a portion of the vertical wellbore of the Caldwell 19-15 No. 1.

And in this portion of the wellbore, it shows the two cores where we obtained these cores, one around 7330, the other around 8200 and the plugs we were taking from that core. It also shows total gas we received during drilling. It shows TOC content by weight of the cuttings, that is cuttings TOC. Also, it shows Delta T from our sonic log and density porosity from our bulk density log, the target we would like to horizontally drill. And our proposed wellbore path is also shown, which is a reddish brown line and you can see the curve and how it lands between the two green lines. The two green lines mark the top and base of the Devonian organic section we would like to target. It's roughly 300-feet thick. We would like to stay within this target as much as possible. There are some waves in this proposed trajectory of this zone and that is basically to illustrate the amount of -- I guess variation we expect.

We expect 70, 80-foot variations from what we really drill. And as we encounter this zone, we are going to monitor this zone and try to stay within the center of the zone as much as possible without exceeding two and a half degrees upward.

The map inset you see is the structure map on top of the middle Devonian shale top, which is the top of our target. And as you will see from the map, the structure is to the East, Southeast and those are on 50-foot contours. So

with the original bottom hole location that we applied for, we would have been drilling updip 7, 800 feet, and that is at a 12 to 13-degree angle, which is not sustainable.

We did not expect our dips to be that high, but with our XRMI data we acquired from the vertical well, plus our processed and reprocessed seismic, these dips are real.

On this inset, I show the actual XRMI Azimuth with dip direction and the dip angle which is 20 degrees in the East or East Southeast direction. Also, at the top of that inset, it shows the XRMI measured induced fracture directions and their Azimuth, which is roughly 75 degrees. This is in contrast of what we expected.

We expected our induced and natural fractures would have been Northeast Southwest. What we will see in the next exhibit, XRMI, the actual natural fracture directions Northwest to Southeast, just opposite of what we expected. And then the induced fracture direction of what we expect to cause when we frac the well is the Azimuth of 90 to 120 degrees.

So the new bottom hole location would allow us to maximize the fracs and maximize the wellbore production with -- by drilling perpendicular to induced fracture direction or as much as we possibly can while remaining as flat as possible.

As I said, 12, 13 degrees is not sustainable,

but zero to 2 and a half degrees is. And that also turns out to be the primary direction we would want to go.

Now, why were we wrong? Well, we were just wrong. We have actual data rather than projected data since we have drilled the vertical well, and that is what the XRMI has given us.

Q. And that leads you to your final exhibit, Exhibit Number 5, which is the XRMI?

A. That is correct.

Q. And please tell Mr. Rogers and the staff about this exhibit.

A. This is a piece of the portion of the XRMI. The XRMI was run from the bottom hole depth to the top of the surface casing -- through the base of the surface casing. And this interval that we are looking at is within our target. This is nearly the center of our target, what we would actually like to drill into. And what this shows is the tadpoles indicate an Easterly dip at roughly 20 degrees, somewhere between 15 and 30, somewhere in that area, for an average 20 degrees to the East, shows conductive fractures oriented North/West, South/East; resistive fractures, again, North/West, South/East which would have been our original Azimuth of our wellbore path.

It shows a fault going roughly east and west. And finally, and most importantly, the induced fractures

which are near east and west -- actually, the induced fracture was like 75 degrees Azimuth just as I had shown on a previous exhibit. And, again, what we would like to do is drill as perpendicular as possible to the induced fracture direction while remaining as flat as possible.

MR. DONALD: Mr. Rogers, I'm now going to call Jim Kramer as my witness.

DIRECT EXAMINATION BY MR. DONALD:

Q. Mr. Kramer, have you previously testified before the Board and do you have on file an affidavit of your qualifications as a petroleum engineer?

A. Yes, I do.

MR. DONALD: Mr. Kramer is going to be testifying as to the next three exhibits, which have to do with the drilling procedure for the lateral well and the wellbore diagram. I tender him as an expert for giving testimony, Mr. Rogers.

MR. ROGERS: He is so recognized.

MR. DONALD: Thank you.

Q. (BY MR. DONALD:) Mr. Kramer, referring to Exhibits 6, 7 and 8, were these exhibits prepared by you or under your supervision and control?

A. Yes, they were.

Q. Mr. Kramer, please tell Mr. Rogers and the staff

about Exhibit Number 6 which is the proposed drilling procedure summary for the lateral sidetrack well.

A. Yes. Exhibit 6 is an outline of the drilling procedure for the proposed sidetrack. It consists of some pre-planning or pre-sidetrack work to determine final targeting depths within the Devonian target, as well as running the bond log to evaluate the top of cement in the vertical hole, as has been previously noted that the vertical wellbore was left in the condition of a 7-inch casing run and cemented and the well temporarily left in that position awaiting the sidetrack.

We have actually run the bond log and confirmed the top of cement at 5800 feet.

The next part of the procedure is the sidetrack itself. The main parts of it are to execute a casing exit using a whipstock system. Once we mill a window in the 7-inch casing, we will drill a 6-1/8th-inch borehole curve and lateral to the Devonian target.

The proposed Azimuth direction is 16 degrees as shown on the plat to the Northeast corner. This proposed direction allows us to drill a planned vertical section of 3875 feet. Once we drill the lateral, we will run a 4-and-a-half-inch production liner and hang that off with a liner system in the vertical part of the 7-inch casing. The top of the liner will be tied back within a few hundred feet

of the actual window. The top of that liner will actually be sealed. Not only will the 4-and-a-half-inch casing be cemented in place, but there will be a liner top packer so there will be a seal on top of the liner.

Basically, that leaves the wellbore in position for the completion of -- the subsequent completion operation.

Q. Your next exhibit, Exhibit Number 7 is the wellbore diagram. You finished that one, right?

Okay. Number 8 is the directional drilling plan for the proposed well. Please tell Mr. Rogers and the staff what is shown on this exhibit.

A. Exhibit 8 is the directional drilling plan for the proposed well. As we have noted, the curve on the right shows the aerial plan view, shows the relationship of the wellbore to the section corner to drill to the Northeast 660 offset corner.

As I stated earlier, that allows us 3875-foot proposed vertical section with a net lateral length of around 3250 feet.

The lateral inclination in the plan is in the 92-degree range. A couple of things that are important, as we showed on the direction, we are going to be drilling along strike to minimize the impact of formation dip. 92-degree range is feasible for not only the drilling, but also getting a liner on bottom with a well of this length. Drilling in

the proposed direction also allows -- there is going to be some variance to what we actually find. We start to see mechanical limits of getting liners on bottom and actually even in the drilling phase when you start to exceed in the 93 to 94-degree range consistently.

So the proposed direction hopefully allows us an ability to drill the entire lateral and get the liner on bottom and still have some variance to what we actually find in dip.

That is it.

MR. DONALD: Mr. Rogers, I would ask that you receive into the record at this hearing Exhibits 1 through 8 as to the testimony of Mr. Shirley and Mr. Kramer.

(Whereupon, Exhibits 1-8 were offered into evidence.)

MR. ROGERS: The exhibits are admitted.

(Whereupon, Exhibits 1-8 were admitted into evidence.)

Q. (BY MR. DONALD:) I'll ask both of my witnesses now: Would the granting of this petition for an exceptional 289 wildcat drilling unit promote orderly development, prevent waste and protect correlative rights, Mr. Shirley?

A. (BY MR. SHIRLEY:) Yes.

Q. Mr. Kramer?

A. (BY MR. KRAMER:) Yes, sir.

Q. Will it maximize the opportunity to produce hydrocarbon resources from these Paleozoic shales, Mr. Shirley?

A. (BY MR. SHIRLEY:) Yes, it would.

Q. Mr. Kramer?

A. (BY MR. KRAMER:) Yes, it would.

Q. Would the granting of this petition prevent the drilling of unnecessary wells, Mr. Shirley?

A. (BY MR. SHIRLEY:) Yes.

Q. Mr. Kramer?

A. (BY MR. KRAMER:) Yes.

MR. DONALD: Mr. Rogers, I tender both of these witnesses to you and the staff for any questions you might have.

MR. ROGERS: Any questions from the staff?

DR. BOLIN: No questions.

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

MR. DONALD: Thank you.

MR. ROGERS: Thank you, Mr. Donald.

All right. The next item then is Item 21, Docket No. 02-08-11-14, petition by Spooner Petroleum Company, Incorporated.

MR. TYRA: Mr. Rogers, I'm John Tyra, here on behalf of Spooner Petroleum Company, and I have two

witnesses to be sworn in, please.

MR. ROGERS: You gentlemen stand and state your names and addresses.

THE WITNESS: Les Aultman, Clinton, Mississippi.

THE WITNESS: Ken Magee, Ridgeland, Mississippi.

LES AULTMAN AND KEN MAGEE,

having been first duly sworn, were examined and testified as follows:

MR. TYRA: Mr. Rogers, to start, I would like to consolidate Items 21 and 22.

MR. ROGERS: That request is granted.

MR. TYRA: Thank you. My two witnesses, the first one being Lester Aultman, has testified as a petroleum geologist before this Board on a number of occasions and has his resume on file with the Board.

MR. TYRA: I'll ask you, Les, if you will get that microphone, did you prepare exhibits in support of these petitions?

MR. AULTMAN: Yes, I did.

MR. TYRA: And I would ask that he be recognized at this time as an expert petroleum geologist.

MR. ROGERS: He is so recognized.

MR. TYRA: And Mr. Ken Magee has testified on many occasions before this board as an engineer. I will ask

you if you have prepared exhibits in support of this petition as well?

MR. MAGEE: I have.

MR. TYRA: I ask that he be admitted or recognized as an expert as well.

MR. ROGERS: He is so recognized.

MR. TYRA: What we are proposing to do here is requesting the Oil and Gas Board to enter an order amending Rules 2 and 3 of the Special Field Rules for the East Lambeth Church Field. We would like to add and define the Washita-Fredericksburg 7300 Sand Oil Pool and provide for well spacing for that pool.

In our companion petition, we have also asked that the 40-acre drilling unit for the Chavers 3-11 No. 1 be approved as a 40-acre production unit for that well. The description of that well -- or the unit rather is the South half of the Northeast quarter of the Southwest quarter and the North half of the Southeast quarter of the Southwest quarter of Section 3, Township 2 North, Range 8 East, Escambia County, Alabama.

This is the same unit that we have previously drilled and was the discovery well for the Washita-Fredericksburg 7500-foot Sand Oil Pool.

DIRECT EXAMINATION BY MR. TYRA:

Q. Mr. Aultman, I'll turn to you first and ask you if you would to turn to Exhibit 1, and ask you if you prepared that and if you have or caused it to be prepared, if you will explain what it shows, please?

A. Okay. This is a map on --

Q. I'm sorry?

A. I'm sorry. Yes. This is a proposed unit, Wash Fred unit. And then also you will see on here, the existing units.

Q. So the Wash Fred unit is the one that is in red. It's a little hard to tell because we have overlapping units, as you can see. But it's the Wash Fred unit, this 40-acre unit in red, which consists of the acreage that I have just described; is that correct?

A. That is correct.

Q. That would be the South half of the Northeast quarter of the Southwest quarter and the North half of the Southeast quarter of the Southwest quarter, Section 3, Township 1 North, Range 8 East?

A. That is correct.

Q. All right. It also shows, does it not, the Powell-Rabon well, which would be the one in orange -- well, actually it's a yellowish color?

A. Yeah.

Q. And that is for the Cogle Sand Unit; is that correct?
A. That is correct.
Q. It also shows the Pilot Sand Unit, which was the Chavers 3-14 well; is that correct?
A. That is correct.
Q. And also the Blackstone 3-15 well, which is the purple 40-acre unit that you are currently drilling or I think you have actually just finished drilling?
A. Yes, sir.
Q. All right, sir. If you would, turn to your second exhibit. What does this show, please, sir?
A. Okay. This is structure map on top of the 7300-foot -- yeah, 7300-foot sand showing the unit and the faulting in here.
Q. All right, sir. And the proposed unit is the orange --
A. Yes.
Q. -- dotted line?
A. That is correct.
Q. The well itself is the one circled in green; is that correct?
A. That is correct.
Q. All right, sir. And what does the -7024 right above the Spooner, what is that?
A. All right. That is the structure on the top of the

sand.

Q. All right, sir. So is that the subsea depth?

A. That is correct, sir.

Q. And right above that is the 40-foot/-6294. What does that refer to?

A. That is a 40-foot fault that you see in green across there and that is denoting that 40-foot fault.

Q. Okay, sir.

A. Cutting the well.

Q. And then if you would turn to your Type Log, Exhibit 3, and explain what that is.

A. Okay. Here we have a Type Log showing the various producing units in the well. And then you see up at -- right above 7300, the sand that we are talking about, this little thin sand.

Q. What is the productive interval that is reflected there?

A. Well, it's like 7280 to 85.

Q. So it would be 7280 feet to 7285 feet, about a 5-foot interval?

A. Yeah.

Q. Briefly, if you would, also explain, we have the Washita-Fredericksburg 7500 sand there?

A. Yeah.

Q. Is that sand still productive?

A. Yes.
Q. Is it productive in this well at this time?
A. No.
Q. So it has watered out; is that correct?
A. Yeah.
Q. All right, sir.

DIRECT EXAMINATION BY MR. TYRA:

Q. We will turn now to our Exhibit 4. And, Mr. Magee, I understand that you will be testifying as to this. What does this show, please?
A. Exhibit 4 is OGB Form 7. It shows the completion record for this well. And at the bottom of the page, it shows where we perforated the 7300-foot sand from 7280 to 7285, six shots a foot. Immediately above that, it shows the initial completion from 7505 to 08 that watered out, and we set a cast iron bridge plug above that zone and completed it to the 7300-foot sand.
Q. Okay, sir. And this document has been filed with the Board previously, correct?
A. It has.
Q. What about your next Exhibit 5, your OGB-9?
A. It shows a test on the completion of the 7300-foot sand, shows an oil test rate of 137 barrels per day, 16 Mcf gas per day with no water on a 6/64th positive choke, with a

flowing tubing pressure of 730 psig. That calculates to a gas/oil ratio of 116 to 1.

Q. Okay, sir. Your Exhibit 6 is your gradient summary; is that correct?

A. It is the initial bottom hole pressure survey we did about a week after the initial completion. It shows a bottom hole pressure at 7282, which is mid perfs of 3243 psi. That indicates a normal bottom hole pressure of -- in this sand.

Q. All right, sir. And your Exhibit 7?

A. Exhibit 7 is several pages. In fact, I just realized that the first page, first and second page are identical, they are both production from September of 2010.

Q. Yes, sir.

A. In the middle of the page is -- above September 1st through about the 13th is when we were producing the 7500-foot sand, as it watered out. It was producing 98-and-a-half percent water. And we re-completed and from September 16th and later is the production from the 7300-foot sand. And it started off flowing at about 137 to 40 barrels a day on a 6/64ths. And then the production actually increased and has held about a 160 to a 170 barrels a day through January of this year.

Q. All right, sir.

MR. TYRA: Mr. Rogers, I would ask that these exhibits to the testimony of these two gentlemen be admitted

to the record as well as my prefiled notice as to both of these matters, please.

(Whereupon, Exhibits 1-7 were offered into evidence.)

MR. ROGERS: Yes, sir. Your hearing exhibits and your Affidavit of Notice, Mr. Tyra, is admitted. And also, I'll admit the letter I wrote to you dated January 18.

(Whereupon, Exhibits 1-7, Affidavit of Notice, and 1/18 letter were admitted into evidence.)

MR. TYRA: Thank you.

MR. ROGERS: Requiring that you notify all of the owners in the Southwest quarter of Section 3. So my letter to you is admitted, your affidavit is admitted, and the other exhibits are admitted.

MR. TYRA: Thank you.

Q. (BY MR. TYRA:) Mr. Aultman, I'll ask you first, in your opinion, would the granting of this petition establishing this 7300 sand or defining it and approving the production unit for the Chavers 3-11 well in the 7300 sand prevent waste, protect coequal and correlative rights and prevent the drilling of unnecessary wells?

A. Yes.

Q. Mr. Magee, I would ask you that same question. Will the granting of petition as to those matters prevent waste, protect coequal and correlative rights and prevent drilling

of unnecessary wells?

A. It would.

MR. TYRA: I will tender the witness for any questions that the staff may have.

MR. ROGERS: Any questions?

DR. BOLIN: No questions.

MR. ROGERS: The staff has no questions. Anything else, Mr. Tyra?

MR. TYRA: That is it. Thank you.

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

MR. TYRA: Thank you.

MR. ROGERS: Thank you. Anything else for the hearing?

(No response.)

MR. ROGERS: The hearing is adjourned.

END OF PROCEEDINGS

C E R T I F I C A T E

STATE OF ALABAMA)
JEFFERSON COUNTY)

I hereby certify that the above and foregoing proceedings were taken down by me in stenotypy, and the questions and answers thereto were reduced to typewriting under my supervision, and that the foregoing represents a true and correct transcript of the proceedings.

I further certify that I am neither of counsel nor of kin to the parties to the action, nor am I in anywise interested in the result of said cause.

/s/ Teresa Turquitt Davis
TERESA TURQUITT DAVIS, CCR, RPR
CCR #162, Expires 09/30/11
Commissioner for the
State of Alabama at Large
My Commission Expires: 12/03/12