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STATE OIL AND GAS BOARD OF ALABAMA

3

Tuscaloosa, Alabama

4

March 21, 2013

5

Testimony and proceedings before the

6

State Oil and Gas Board in Regular Session in the

7

Board Room of the State Oil and Gas Board Building,

8

University of Alabama Campus, Tuscaloosa, Alabama,

9

pursuant to adjournment, on this 21st day of March,

10

2013.

11

ORIGINAL

12

BOARD

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14

Mr. James "Jim" Griggs, Chairman

15

Mr. Charles "Ward" Pearson, Vice Chairman

16

Mr. M. Barnett Lawley, Member

17

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STAFF

19

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Dr. Berry H. "Nick" Tew, Secretary and Supervisor

21

Dr. David E. Bolin, Deputy Director

22

Mr. S. Marvin Rogers, Attorney

23

Ms. April Merritt, Hearings Administration

24

25

SMR
6/20/13

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1 PROCEEDING

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3 CHAIRMAN GRIGGS: It's 10:04. Let the
4 record reflect that the State Oil and Gas Board is
5 now in session. Dr. Tew, have the items for the
6 March 19th and the March 21st, 2013, meetings been
7 properly noticed?

8 DR. TEW: Chairman Griggs, Mr. Pearson,
9 and Mr. Lawley, the items for the March 19th and
10 March 21st meetings have been properly noticed. The
11 staff prepared an agenda for the Board's March 19th
12 and March 21st meetings, and that agenda was admitted
13 into the record at the Hearing Officer meeting on
14 March 19th, 2013. Mr. Marvin Rogers, acting as
15 Hearing Officer, and the staff heard various items at
16 the Hearing Officer meeting on March 19th, and at
17 this time, Mr. Rogers will make his report to the
18 Board.

19 MR. ROGERS: Chairman Griggs, Mr.
20 Pearson, and Mr. Lawley, I have a written report of
21 the items heard by the Hearing Officer and the staff
22 on Tuesday, March 19, 2013. Copies of that report
23 are available for members of the public to review and
24 study. I submit this Hearing Officer Report to the
25 Board for approval.

1 CHAIRMAN GRIGGS: Is there a motion on
2 the Hearing Officer's Report?

3 MR. PEARSON: So moved.

4 MR. LAWLEY: Second.

5 CHAIRMAN GRIGGS: Motion and a second.
6 All in favor say "aye." Ayes have it. The Hearing
7 Officer's report is approved.

8 MR. ROGERS: Mr. Chairman, I recommend
9 the report be admitted into the record.

10 CHAIRMAN GRIGGS: It is admitted into the
11 record.

12 MR. ROGERS: Thank you.

13 DR. TEW: The staff would recommend
14 approval of the minutes of the following meetings:
15 December 11th, 2012, Hearing Officer Meeting;
16 December 13th, 2012, Regular Board Meeting; December
17 19th, 2013 -- 2012, Special Hearing Officer Meeting;
18 and February the 12th, 2013, Hearing Officer Meeting.

19 MR. PEARSON: I move that we adopt those
20 minutes, Mr. Chairman.

21 CHAIRMAN GRIGGS: We have a motion.
22 Second?

23 MR. LAWLEY: Second.

24 CHAIRMAN GRIGGS: There is a motion and a
25 second. All in favor say "aye." Ayes have it.

1 Those minutes are approved.

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

5 CHAIRMAN GRIGGS: Mr. Rogers.

6 MR. ROGERS: Mr. Chairman, Members of the
7 Board, one of the items that was recommended to be
8 continued is a motion by the Board relating to
9 hydraulic fracturing. Copies of that, of those
10 proposed rules are available at the table outside the
11 hearing room, and the Board and the staff would
12 welcome any comments either now or written comments
13 in the future about that rule.

14 CHAIRMAN GRIGGS: Would you like to be
15 recognized?

16 MR. LATHEM: Please.

17 CHAIRMAN GRIGGS: If you will, for all of
18 the petitions and everything before the Board, we
19 have a new hearing reporter today, please state your
20 name succinctly and always use the microphone. That
21 will make her job a whole lot easier.

22 MR. LATHEM: My name is Dennis Lathem.
23 I'm with the Coalbed Methane Association in Hoover,
24 Alabama. And we appreciate the work of the staff and
25 the Board on these proposed regulations. We have

1 made sure they've been circulated to our membership,
2 and so far there have been no comments of any kind,
3 and we'll continue to be soliciting those comments,
4 and hopefully others in the other areas of the
5 industry. I talked with a colleague of mine in
6 Montgomery who heard from some of his folks, so. I
7 haven't heard anything negative at all on the
8 comments, so we just look forward to working with you
9 on them. I believe the next meeting, April meeting,
10 is where you may plan to take them up. So we
11 appreciate the opportunity.

12 CHAIRMAN GRIGGS: Thank you, Mr. Lathem.
13 We appreciate the support of your association.

14 Mr. Rogers.

15 MR. ROGERS: The first item is Docket No.
16 10-23-12-01A, petition by Ankor E&P Holdings
17 Corporation. And there also is a related item,
18 Mr. Chairman, Item 2, Docket No. 10-23-12-02A.

19 CHAIRMAN GRIGGS: Mr. Turner, would it be
20 appropriate to consolidate these two items?

21 MR. TURNER: It would, Mr. Chairman.

22 CHAIRMAN GRIGGS: Thank you. They are
23 consolidated.

24 MR. TURNER: Mr. Chairman, Hal Turner for
25 the Petitioner in these two matters, Ankor E&P

1 Holdings Corporation. They are docket numbers 1 and
2 2 on the docket for today, which you've just
3 consolidated.

4 The first is a petition by Ankor
5 requesting the Board to establish a new oil field in
6 Escambia County, Alabama, to be known as the
7 Southeast Wallace Field, adopt the Special Field
8 Rules for the new oil field, and establish field
9 limits for the new oil field. Ankor is requesting
10 the Southeast Wallace Field be approved and
11 established to consist of the Northwest Quarter of
12 Section 19, Township 3 North, Range 9 East in
13 Escambia County, Alabama.

14 On the companion petition, that is a
15 petition by Ankor requesting the Board to reform the
16 40-acre wildcat drilling unit for the Craft-Black
17 Stone 19-3 #1 Well, Permit No. 16533-B, to a 160-acre
18 production unit. And Ankor proposes to reform that
19 40-acre unit, which consists -- presently consists of
20 the Northeast Quarter of the Northwest Quarter of
21 Section 19, Township 3 North, Range 9 East in
22 Escambia County, Alabama, to a 160-acre production
23 unit consisting of the Northwest Quarter of Section
24 19, Township 3 North, Range 9 East in Escambia
25 County, Alabama.

1 Ankor has two live witnesses to call
2 today. Those would be Mr. Ed Leigh and Mr. Bill
3 Engle. We would ask that they be recognized and
4 sworn at this time.

5 MR. ROGERS: Gentlemen, state your names
6 and addresses.

7 MR. LEIGH: I'm Leslie Edward Leigh, 438
8 Red Maple Drive, Mandeville, Louisiana.

9 MR. ENGLE: William J. Engle, 134 Ayshire
10 Court, Slidell, Louisiana.

11 (The Hearing Officer swears in the
12 witnesses.)

13 MR. TURNER: Mr. Chairman, may I approach
14 and distribute exhibits?

15 CHAIRMAN GRIGGS: Yes, sir.

16 MR. TURNER: Mr. Chairman, a couple of
17 preliminary matters on the exhibits. We, of course,
18 pre-filed exhibits with the staff before this
19 hearing. There were corrections made to two
20 exhibits. The corrected exhibits are in all of the
21 booklets that we just distributed. The two exhibits
22 that were corrected from the pre-submitted exhibits
23 was Exhibit 3, where we corrected a contour line,
24 which we have discussed with the staff previously.
25 And the second correction was on Exhibit 12, which is

1 production data totals for this particular well. The
2 production data itself and numbers were correct, but
3 the totals at the bottom were not. We corrected
4 those. So Exhibits 3 and 12 are corrected from the
5 original pre-filed exhibits. All other exhibits in
6 the booklet are the same as the pre-filed exhibits.

7 At this time we would like to make a part
8 of the record the proof of publication from the
9 Tri-City Ledger dated 10/4/12 for the two petitions
10 in this matter.

11 (Whereupon, (Items 1 and 2) Tri-City Ledger proof of
12 publication offered in evidence.)

13 CHAIRMAN GRIGGS: Both of those are
14 admitted into the record.

15 (Whereupon, (Items 1 and 2) Tri-City Ledger proof of
16 publication received in evidence.)

17 MR. TURNER: We would also like to make a
18 part of the record the notice affidavit of Warren
19 Miguez dated October 5th, 2012.

20 (Whereupon, (Items 1 and 2) Warren Miguez affidavit
21 offered in evidence.)

22 CHAIRMAN GRIGGS: It's admitted.
23 (Whereupon, (Items 1 and 2) Warren Miguez affidavit
24 received in evidence.)

25 MR. TURNER: And we would also like to

1 make a part of the record the well file for the
2 Craft-Black Stone 19-3 #1 Well.

3 (Whereupon, (Items 1 and 2) Craft-Black Stone 19-3
4 well file offered in evidence.)

5 CHAIRMAN GRIGGS: Admitted.

6 (Whereupon, (Items 1 and 2) Craft-Black Stone 19-3
7 well file received in evidence.)

8 MR. TURNER: Finally, there were two
9 related petitions filed by Ms. Eunice Reynolds. They
10 are shown as Docket No. 4 and Docket No. 5 on the
11 agenda for today. Those -- Mrs. Reynolds -- those
12 were contests to our petitions. Mrs. Reynolds has
13 since then moved to dismiss her petitions without
14 prejudice. The Hearing Officer has recommended that
15 they be dismissed without prejudice. And for the
16 record, Ankor has no opposition to those petitions
17 being dismissed.

18 CHAIRMAN GRIGGS: I believe we've already
19 dismissed those by approval of the Hearing Officer's
20 Report.

21 MR. TURNER: Thank you, Mr. Chairman.

22

23 EDWARD LEIGH,

24 having been first duly sworn, was examined and

25 testified as follows:

1

2 MR. TURNER: Mr. Leigh, state your full
3 name for the record, please.

4 MR. LEIGH: Leslie Edward Leigh.

5 MR. TURNER: By whom are you employed?

6 MR. LEIGH: Ankor Energy, operating agent
7 for Ankor E&P Holdings Corporation.

8 MR. TURNER: So what is your current
9 position with Ankor?

10 MR. LEIGH: Petroleum geologist.

11 MR. TURNER: And Ankor is an oil and gas
12 exploration and production company; is that correct?

13 MR. LEIGH: That's correct.

14 MR. TURNER: And what is your occupation
15 or profession?

16 MR. LEIGH: Geologist.

17 MR. TURNER: And is your resumé currently
18 on file with the Board?

19 MR. LEIGH: Yes, it is.

20 MR. TURNER: And have you qualified to
21 testify with this Board previously as an expert in
22 petroleum geology?

23 MR. LEIGH: Yes.

24 MR. TURNER: Mr. Chairman, we would
25 tender Mr. Leigh at this time as an expert in

1 petroleum geology.

2 CHAIRMAN GRIGGS: He is recognized as an
3 expert petroleum geologist.

4

5 (Items 1 and 2) DIRECT EXAMINATION BY MR. TURNER:

6 Q. Mr. Leigh, are you the Ankor geologist
7 principally responsible for the Old Home Prospect
8 located in Escambia County, Alabama?

9 A. Yes.

10 Q. And would that Old Home Prospect include
11 the well at issue in this matter, the Craft-Black
12 Stone 19-3 #1 Well?

13 A. Yes, it does.

14 Q. Do you prepare Exhibits 1 through 8 that
15 we previously distributed to the Board?

16 A. Yes, sir.

17 Q. Are all those exhibits signed by you?

18 A. They are.

19 Q. And do all of those Exhibits 1 through 8
20 fairly and accurately depict the information shown on
21 the exhibits?

22 A. Yes, sir.

23 Q. Would you turn first, please, sir, to
24 Ankor Exhibit No. 1 and tell the Board what that
25 exhibit is, please, sir.

1 A. Exhibit No. 1 is an area map over a
2 portion of Escambia County, Alabama. It shows the
3 proposed Southeast Wallace Field, the proposed field
4 limit, and the proposed 160-acre unit covering the
5 same geographical area, that being the Northwest
6 Quarter of Section 19, Township 3 North, Range 9
7 East.

8 Q. And Ankor proposes to call the new field
9 the Southeast Wallace Field; is that correct?

10 A. That's correct.

11 Q. Okay. And -- excuse me.

12 A. Go ahead.

13 Q. And does Exhibit 1 fairly and accurately
14 depict the proposed unit and field in relation to
15 other units and fields in the area?

16 A. Yes. It's showing the relation to the
17 established fields in the area. And it shows that
18 the northern boundary and the western boundary of the
19 proposed unit and field limit directly adjoins one of
20 these, that being the South Wallace Field.

21 Q. Okay, sir. Move with me, Mr. Leigh, if
22 you would, to Ankor Exhibit No. 2 and tell the Board
23 generally what that exhibit is.

24 A. Exhibit 2 is a well location plat. I'm
25 showing Section 19, Township 3 North, Range 9 East,

1 Escambia County, Alabama. Shows the proposed
2 production unit and the proposed field limit, both
3 outlined in red on this plat. The proposed field
4 limit and proposed production unit consists of a
5 governmental quarter section, the Northwest Quarter
6 of Section 19, Township 3 North, Range 9 East, 160
7 acres in size. This plat also shows the subject
8 well, the Ankor E&P Holdings Corporation Craft-Black
9 Stone 19-3 #1, Alabama Permit No. 16533-B, in the
10 Northeast Quarter of that quarter section.

11 This well was drilled as a slight
12 directional well, and this was due to topographic
13 issues on the surface preventing us from drilling a
14 vertical test at the target location. Since this is
15 a directional well, we're showing on this plat the
16 surface hole location; to the west of that, the point
17 of penetration of the top Smackover formation; and
18 near that, the bottom hole location.

19 Q. Mr. Leigh, is the bottom hole of the
20 Craft-Black Stone 19-3 Well more than 660 feet from
21 every exterior boundary of the proposed production
22 unit?

23 A. Yes, it is. It's -- the bottom hole
24 location is 743 feet from the north line of Section
25 19 and the north line of the proposed unit, 1,788

1 feet from the west line of the proposed unit and the
2 west line of Section 19, and 854 feet from the east
3 line of the proposed unit.

4 Q. And the reservoir that was encountered in
5 this instance by the Craft-Black Stone 19-3 Well was
6 Smackover; is that correct?

7 A. That's correct.

8 Q. Move with me to Exhibit 3 and tell the
9 Board what that exhibit is, please, sir.

10 A. Exhibit 3 is a structure map drawn on the
11 top of the Smackover formation. This is --

12 Q. Was that structure map prepared using 3-D
13 seismic owned by Ankor?

14 A. Yes. It was derived from a
15 135-square-mile 3-D survey that Ankor has in Escambia
16 County. It's a time interpretation converted to
17 depth. The scale is one inch equals 1,000 feet,
18 contour interval is 10 feet. Two prominent -- well,
19 first of all, it does show again the proposed field
20 limit and the proposed 160-acre production unit
21 consisting of the Northwest Quarter of Section 19 in
22 relation to the South Wallace Field limit, which is
23 shown in solid green on the -- on the map.

24 Two prominent structural features are
25 shown, that being the four-way dip closure that we

1 drilled with the Craft-Black Stone 19-3 Well, and the
2 four-way dip closure drilled by the Craft -- again
3 Ankor E&P Holdings Corporation Craft-Black Stone
4 13-16 #1. And that's Permit No. 16413-B.

5 Q. The -- I'm sorry, are you finished?

6 A. Yeah, you go ahead.

7 Q. The small broken green line inside the
8 production unit is of course -- that depicts the
9 limits of the Smackover reservoir encountered by the
10 well, in your opinion?

11 A. Yes. I'm showing two limits, one for the
12 well in question. It encountered an oil-water
13 contact shown in dashed green at a subsea elevation
14 of 13,392 feet. That's shown just outside the
15 13,390-foot contour. Another limit is shown for the
16 13-16 structure, and that was not an oil-water
17 contact, but the lowest known oil, at subsea 13,350
18 feet. That well, the 13-16, encountered the
19 Smackover at subsea 13,305 feet, 55 feet above the
20 elevation at which the 19-3 drilled the Smackover.

21 Although it did not see an oil-water
22 contact, the lowest known oil is just a few feet
23 above the spill point for that structure, which the
24 spill point is in the Southwest Quarter of the
25 Southeast Quarter of Section 13, that low area just

1 outside the 13,350-foot contour. That's the spill
2 point for the structure. And it is 37 feet high to
3 the proven oil-water contact in the 19-3 Well, thus
4 indicating that the two indicated reservoirs are
5 distinct and separate structurally.

6 Q. Mr. Leigh, in your opinion, is the
7 Smackover oil pool encountered by the 19-3 Well a
8 separate and distinct oil-producing pool in the
9 proposed field?

10 A. Yes, it is.

11 Q. And that would include, according to your
12 earlier testimony, the Smackover reservoir underlying
13 the South Wallace Field which was encountered by the
14 Craft-Black Stone 13-16 Well; is that correct?

15 A. That's my opinion, yes.

16 Q. In your opinion, is the Smackover oil
17 pool at issue here all contained within the proposed
18 field limits?

19 A. It is completely contained within the
20 proposed unit.

21 Q. And in your opinion, does the proposed
22 production unit capture the entire Smackover
23 reservoir encountered by the well?

24 A. Yes.

25 Q. And in your opinion, will the Craft-Black

1 Stone 19-3 Well efficiently and economically drain
2 the entire Smackover reservoir underlying the 19-3
3 Well?

4 A. Yes, it will.

5 Q. Would you move to Exhibit 4, please.

6 A. Exhibit 4 is a type log for the subject
7 well, the 19-3, Permit No. 16533-B. This log was
8 taken from the Schlumberger Platform Express run log
9 on July 6th, 2011. It's Ankor's practice to drill
10 the Smackover in its entirety to see if the Norphlet
11 is present and to drill into Paleozoic basement or
12 whatever basement may exist. In this case we found
13 -- I'm showing the Norphlet here because we found a
14 show of oil in the Norphlet. We set pipe on it and
15 tested it, but it was noncommercial, having too low
16 permeability to flow. We then plugged back to the
17 upper Smackover, that's that upper set of red perms
18 that you see on the log toward the top, and
19 established production in the upper Smackover.

20 Q. And this particular log was run on the
21 well on what date?

22 A. July the 6th of 2011.

23 Q. And where does that log show the top of
24 the Smackover oil pool to be?

25 A. Top of the Smackover oil pool on the log

1 is 13,672 feet measured depth, subsea elevation
2 13,360.

3 Q. And where did the log place the base of
4 this particular Smackover oil pool?

5 A. The base of the Smackover oil pool is
6 placed at the oil-water contact shown at 13,704
7 measured depth, subsea 13,392 feet.

8 Q. In your opinion, should the Smackover oil
9 pool in the proposed Southeast Wallace Field be
10 defined as those strata of the Smackover formation
11 productive of hydrocarbons in the interval between
12 13,672 feet and 13,704 feet measured depth as defined
13 by the Platform Express log for that well?

14 A. Yes.

15 Q. Move to Exhibit 5, please, sir. Tell the
16 Board what that exhibit is.

17 A. Exhibit 5 is a portion of the
18 conventional core analysis taken in the upper
19 Smackover. It shows the oil-water contact
20 encountered on the core at 13,707 feet measured
21 depth. And since the core is measured from drill
22 pipe measurements and the log is measured from wire
23 line, there's a three-foot discrepancy, the core
24 depths being three foot low to the log depths. After
25 you apply that correction, the oil-water contact

1 indicated is at 13,704 feet measured depth subsea,
2 13,392 feet subsea, matching that on the electric
3 log, Exhibit 4.

4 Q. Okay, sir. And would you move to
5 Exhibits 6, 7, and 8, and if you would, discuss those
6 collectively, please, sir. First identify each one
7 and then tell us the significance of that.

8 A. Okay. Exhibits 6, 7, and 8 are offered
9 in support of the structure map Exhibit 3. Exhibit 6
10 is a structural cross section extending northwest to
11 southeast through three wells in the area to the
12 northwest, the Wallace Field Well, Coastal -- Coastal
13 ATIC 13-6 #1, Permit 5268, on to the southeast
14 through the aforementioned Ankor RPC Craft-Black
15 Stone 13-16 #1 and the subject well, the Ankor
16 Craft-Black Stone 19-3 #1.

17 This structural cross section, the datum
18 for which is sea level, shows the present-day
19 relationship in structure between these three wells,
20 showing the Wallace Field well to be the highest on
21 structure, but on a separate structure from the other
22 two. And in fact, it shows that all three wells are
23 separate structurally, showing the oil-water contact
24 at 13,392 we found in the 19-3 Well; the lowest known
25 oil at 13,350 in the Black Stone 13-16 #1; and also

1 the lowest known oil at 13,192 feet at the Coastal
2 well. The Coastal well is no longer on production,
3 although it's the highest well. Again, these three
4 wells are separate structurally from one another.

5 Exhibit No. 7 is Arbitrary Line 1 taken
6 from the 3-D seismic survey. This line of section is
7 the same as the previous cross section line on
8 Exhibit 6 except it excludes the well to the
9 northwest, the Coastal ATIC well. This line goes
10 through the Ankor Black Stone 13-16 Well and the
11 Ankor Black Stone 19-3 Well, subject well. This
12 shows a northwest dip and a southeast dip on both of
13 the structures indicated, showing that they are
14 separate on this line separated by a structural low.

15 Exhibit No. 8 is roughly 90 degrees to
16 that Arbitrary Line 1. This is Arbitrary Line 2, and
17 this is designed to show the critical north dip and
18 the south dip across the 19-3 closure. These two
19 lines, together with the structure -- the structure
20 map, show that the structure in question is a
21 four-way dip closure, separate and distinct from the
22 other structures in the area.

23 Q. Okay. So, Mr. Leigh, do the type log
24 Exhibit 4, the core analysis, Exhibit 5, and the
25 cross section and two arb lines, Exhibits 6, 7, and

1 8, all demonstrate in your opinion that the Smackover
2 oil pool encountered by the 19-3 Well have a separate
3 and distinct oil-producing pool in this field?

4 A. Yes, they do.

5 Q. And that would include the Smackover oil
6 pool for the South Wallace Field which was
7 encountered by the Craft-Black Stone 13-16 Well; is
8 that correct?

9 A. Yes, sir.

10 Q. In your opinion, again, does the 160-acre
11 production unit that Ankor has proposed capture the
12 entire Smackover reservoir?

13 A. Yes, sir, it does.

14 Q. Yes, sir. Mr. Leigh, in connection with
15 the petitions Ankor has filed in this case, they
16 submitted Special Field Rules. Rule 3 of those
17 Special Field Rules proposes that the spacing
18 requirements for wells in the Southeast Wallace Field
19 be 160-acre production units with 660 feet setbacks.
20 Are you aware of that?

21 A. Yes, sir, I am.

22 Q. Okay. In your opinion, would those
23 spacing requirements sufficiently and economically
24 drain the Smackover oil pool at issue here and
25 prevent the drilling of unnecessary wells?

1 A. Yes.

2 Q. Finally, in your opinion, would granting
3 the petitions in this case prevent waste of oil and
4 gas?

5 A. Yes.

6 Q. And would granting the petitions in this
7 case in your opinion also protect the correlative
8 rights of all mineral interest owners at issue here?

9 A. Yes, they would.

10 MR. TURNER: Mr. Chairman, Ankor passes
11 the witness for any questions the Board may have.

12 CHAIRMAN GRIGGS: Any questions for the
13 witness?

14 DR. TEW: I've got one clarification,
15 Mr. Leigh. Would you refer to your Exhibit No. 5,
16 please? At the bottom there, it says lowest known
17 oil, LKO. Should that be an oil-water contact rather
18 than the lowest known oil?

19 THE WITNESS: Yes, sir, it should.

20 DR. TEW: Thank you.

21 THE WITNESS: Thank you very much.

22 CHAIRMAN GRIGGS: Any questions?
23 Proceed.

24 MR. TURNER: Mr. Chairman, we call as our
25 next witness Bill Engle.

1

2

WILLIAM ENGLE,

3

having first been duly sworn, was examined and

4

testified as follows:

5

6

MR. TURNER: State your name for the

7

record, please, sir.

8

MR. ENGLE: William John Engle.

9

MR. TURNER: And, Mr. Engle, by whom are

10

you employed?

11

MR. ENGLE: Ankor Energy, LLC.

12

MR. TURNER: What is your current

13

position with Ankor?

14

MR. ENGLE: Project manager, assistant to

15

the president.

16

MR. TURNER: Okay, sir. What is your

17

occupation or profession?

18

MR. ENGLE: Petroleum engineering.

19

MR. TURNER: And is your current resumé

20

on file with the Board?

21

MR. ENGLE: Yes, it is.

22

MR. TURNER: Have you qualified with the

23

Board previously to testify as an expert in petroleum

24

engineering?

25

MR. ENGLE: Yes, I have.

1 MR. TURNER: Mr. Chairman, we would
2 tender Mr. Engle at this time as an expert in
3 petroleum engineering.

4 CHAIRMAN GRIGGS: The Board recognizes
5 Mr. Engle as an expert in petroleum engineering.

6
7 (Item 1 and 2) DIRECT EXAMINATION BY MR. TURNER:

8 Q. Mr. Engle, are you the Ankor petroleum
9 engineer principally responsible for the Old Home
10 Prospect located in Escambia County, Alabama?

11 A. Yes, I am.

12 Q. And that prospect would include the 19-3
13 Well; is that correct?

14 A. Yes, it does.

15 Q. Did you prepare Exhibits 9 through 12
16 that we've submitted to the Board previously?

17 A. Yes, I did.

18 Q. Are all those exhibits signed by you?

19 A. Yes, they are.

20 Q. And do all those exhibits fairly and
21 accurately depict the information shown on the
22 exhibits?

23 A. Yes, they do.

24 Q. Would you turn to your first exhibit,
25 Mr. Engle, No. 9.

1 A. Yes.

2 Q. And what is that exhibit, please, sir?

3 A. That is Form OGB-9, which is the First
4 Production or Test Report for the Black Stone --
5 Craft-Black Stone 19-3 #1 Well.

6 Q. And on what date was the well tested,
7 please, sir?

8 A. September 19th, 2011.

9 Q. For what period of time?

10 A. 72 hours.

11 Q. And during that 72 hours, the well
12 produced how many barrels of oil?

13 A. Let's see. The total was 1,045 barrels
14 of oil, 2,809 Mcf of gas.

15 Q. And at what flowing tubing pressure did
16 the well maintain during that test?

17 A. Let's see. Final flowing tubing pressure
18 was 931 pounds.

19 Q. Okay. And would you move with me, if you
20 would, please, sir, to Ankor Exhibit 10. What is
21 that?

22 A. This is the production history of the
23 well from -- including the initial test and
24 production once the well was put on permanent
25 production in July of 2012 through the week of

1 September 29, 2012. During that time, the well, as
2 you can see, initially was tested at roughly 325
3 barrels of oil a day. During this time period, the
4 well exhibited decline and averaged 163 barrels of
5 oil during this roughly 70-day test period.

6 Q. Okay, sir.

7 A. Which in this -- and this performance
8 affirms the geologic interpretation that this
9 reservoir is separate and distinct from the 13-16 #1,
10 which has exhibited relatively stable production at
11 approximately 300 barrels of oil a day.

12 Q. Yes, sir. Mr. Engle, would you jump with
13 me to Exhibit 12 and explain to the Board what that
14 exhibit is?

15 A. Exhibit 12 is just a continuance of the
16 production history of this well, which will show its
17 continuing decline to its present operation on pump.
18 The well is the -- in this reservoir is the only
19 pressure depletion reservoir we have yet encountered
20 in this area.

21 Q. In other words, when our original
22 petition was filed in September of last year, we gave
23 the Board the production data which is in Exhibit 10
24 that we had at the time; but with the time lapse, we
25 have added to that production through March of this

1 year. Is that correct?

2 A. That is correct.

3 Q. Okay. And those production -- during
4 that period of time -- that would be 33 weeks
5 approximately; is that correct?

6 A. That is correct.

7 Q. And during that period of time, the well
8 produced 20,744 barrels of oil; is that correct?

9 A. That is correct.

10 Q. And that would work out to an average of
11 how many barrels of oil per day?

12 A. Roughly 90 over the entire time frame.
13 But I would point out that during the initial testing
14 period where the average was 165, since September to
15 current the well has averaged 60 barrels a day.

16 Q. Okay, sir. And when did this well go on
17 pump? Is that shown on Exhibit 12?

18 A. Yes. You can look on the first page of
19 Exhibit 12, that black vertical bar is indication of
20 the time periods that the well has been operating on
21 pump.

22 Q. Okay, sir.

23 A. And that would have been in -- let's see.
24 The date here was September. We shut the well in to
25 install the pump in November 26th through the 29th,

1 2012.

2 Q. And the well is currently on pump; is
3 that correct?

4 A. Yes, it is.

5 Q. Okay, sir. Would you move back with me,
6 Mr. Engle, to Ankor Exhibit 11 and tell the Board
7 what that exhibit is, please, sir.

8 A. Exhibit 11 is the report from FESCO, Ltd.
9 and PVT analysis of the subject well based on
10 sampling taken during the initial well test that
11 shows that this was an undersaturated oil reservoir
12 at the time.

13 Q. So the test shows that the principal
14 hydrocarbon in the well is oil; is that correct?

15 A. That is correct.

16 Q. Mr. Engle, based upon the engineering
17 data we've just discussed with the Board, do you have
18 an opinion as to whether or not the Smackover oil
19 pool is a separate and distinct oil-producing pool in
20 the proposed field?

21 A. Yes, I do.

22 Q. And what is your opinion? That it is?

23 A. That it is separate and unique unto
24 itself. It is not in communication with any other
25 reservoirs.

1 Q. And that would include the reservoir
2 encountered by the 13-16 Well; is that correct?

3 A. That is correct.

4 Q. And do you believe the entire Smackover
5 oil pool here is captured by the proposed production
6 unit?

7 A. Yes, I do.

8 Q. Mr. Engle, I discussed earlier with
9 Mr. Leigh the proposed Special Field Rules. With
10 him, it was Rule 3; with you, I would like to discuss
11 Rule 7.

12 At the time the petition was submitted,
13 Rule 7 called for production allowables for oil for
14 200 barrels of oil per day. Are you familiar with
15 that?

16 A. Yes, I am.

17 Q. Do you still believe that a 200 barrel of
18 oil per day production allowable would be appropriate
19 for the well, given the history, production history
20 of the well?

21 A. No, I do not.

22 Q. Would you tell the Board why?

23 A. Just the observed performance decline in
24 rate and pressure would warrant a lower allowable.

25 Q. Okay. Would you tell the Board in your

1 opinion what would be an appropriate production
2 allowable for the well based upon the current
3 engineering data?

4 A. 100 barrels of oil a day.

5 Q. Would that production allowable, if
6 approved by the Board, in your opinion, promote the
7 proper and orderly development of the field and
8 prevent damage to the reservoir?

9 A. Yes, it would.

10 Q. Mr. Engle, in your opinion, would
11 granting Ankor's petitions in this case prevent waste
12 of oil and gas?

13 A. Yes.

14 Q. And in your opinion, would granting the
15 petitions in this case protect the correlative rights
16 of all mineral interest ownership?

17 A. Yes, it would.

18 MR. TURNER: Mr. Chairman, we pass
19 Mr. Engle for any questions the Board may have.

20 CHAIRMAN GRIGGS: Any questions by your
21 staff?

22 MR. TURNER: If there are no questions,
23 Mr. Chairman, we would offer into the record into
24 evidence at this time Ankor Exhibits 1 through 12.
25 (Whereupon, (Items 1 and 2) Ankor Exhibits 1 through

1 12 offered in evidence.)

2 CHAIRMAN GRIGGS: They're admitted into
3 evidence.

4 (Whereupon, (Items 1 and 2)Ankor Exhibits 1 through
5 12 received in evidence.)

6 MR. TURNER: And we have no further
7 testimony.

8 CHAIRMAN GRIGGS: Any further questions?
9 Any questions by the Board? Entertain a motion.

10 MR. PEARSON: Mr. Chairman, I move we
11 grant Items 1 and 2, which are the petitions by Ankor
12 E&P Holdings, with the stipulation that the allowable
13 would be 100 barrels instead of 200 barrels as
14 originally specified in the petition.

15 CHAIRMAN GRIGGS: Motion as stated. Is
16 there a second?

17 MR. LAWLEY: Second.

18 CHAIRMAN GRIGGS: Got a motion and a
19 second. All in favor say "aye." The ayes have it.
20 Petitions are granted with the stipulations
21 specified.

22 MR. TURNER: Thank you, Mr. Chair.

23 MR. ROGERS: Next item is Item 14, Docket
24 No. 02-12-13-10, petition by Robert Land,
25 individually and as attorney for certain landowners.

1 MR. LAND: Good morning.

2 CHAIRMAN GRIGGS: As Petitioner, you want
3 to have a seat on this side and keep us straight?

4 MR. LAND: Mr. Chairman, my name is
5 Robert Land. I reside here in Tuscaloosa. I am the
6 Petitioner and also represent several of the
7 landowners in the area of the North Excel Field.
8 This petition was filed so that the mineral owners
9 could proceed with the possibility of having another
10 company develop the acreage in this field.

11 As I informed the Board last time I
12 appeared before them, the acreage in this field, the
13 mineral interest and the leases upon them, were
14 permitted to expire by Delphi, the operator of the
15 Hill and Jordan wells. Because of that, we had taken
16 steps to acquire the leases and have done so on the
17 acreage involved, which is basically the Northeast
18 Quarter of Section 33 and the Northwest Section --
19 Northwest Quarter of Section 34. These are the two
20 units of the Hill and the Jordan well.

21 It has come to my attention -- well, this
22 week we have found out that we do have another
23 company that is interested in drilling a well to tap
24 part of a reservoir in Section 34 that has not been
25 drained, apparently. We think, as a consequence of

1 this, and there is -- and some speculation as to the
2 drainage of untapped reserves in Section 33, I would
3 ask the Board to consider continuing this matter and
4 the -- Mr. Brooks' petition to temporarily abandon
5 these fields until the May hearing.

6 We have acquired all of the leases in
7 both of these sections, or both of these units, as I
8 said. And I'm not at liberty to disclose the
9 proposed operator because we have not completed the
10 contractual obligations yet that we're required to
11 do. But we want to proceed with that and talking to
12 Mr. Brooks and possibly resolving this issue without
13 any disagreement and perhaps further utilizing the
14 Hill and the Jordan wells. There is a chance that
15 the Jordan well may be used for repressurization, as
16 Mr. Brooks says, and the Hill well may be possibly
17 used to acquire the well bore to kick off another
18 well to drain part of the reservoir that has not been
19 drained in Section 33.

20 Therefore, I just wanted to bring the
21 Board up to date and ask that you continue these
22 matters for the present time. Thank you.

23 CHAIRMAN GRIGGS: Mr. Land, it is my
24 understanding there's also a site, as I recall, we
25 had discussed --

1 MR. LAND: Yes, sir.

2 CHAIRMAN GRIGGS: -- at the previous
3 Board meeting, maybe back last August.

4 MR. LAND: That is correct.

5 CHAIRMAN GRIGGS: We were concerned about
6 the -- I believe at that point you were concerned
7 about the removal of the tank --

8 MR. LAND: Yes, sir.

9 CHAIRMAN GRIGGS: -- on behalf of your
10 clients.

11 MR. LAND: Right.

12 CHAIRMAN GRIGGS: What is the status of
13 that site?

14 MR. LAND: Well, the status of the site
15 is unchanged at this time. We basically would like
16 to see if this company would come in and take over
17 the operation of the site, assume responsibility for
18 it, and -- when they are drilling their new well. As
19 I said, this has all come to my attention, this has
20 all come up this week.

21 CHAIRMAN GRIGGS: Would the well be
22 drilled on this site? There was previously a plugged
23 well on the site, as I understand it.

24 MR. LAND: That is correct. And there is
25 five acres that this site takes up to the -- slightly

1 to the northeast of both of these well sites.

2 All of the pipelines are still in place.

3 The well bores are there, and their integrity remains
4 intact. The landowners are very much in favor of the
5 redevelopment of this field and the drilling of a new
6 well. I am in contact with them on a regular basis.

7 And I talked to Mr. Tommy Jordan, who owns the
8 property where the Jordan well is, this past month
9 concerning a location for a new well in Section 33.
10 And his response was, "Well, if they want to put it
11 where my house is, just pay me what I got in it and
12 give me time to move before you bulldoze it."

13 CHAIRMAN GRIGGS: Let me ask you further
14 about the site where the tank is located.

15 MR. LAND: Yes, sir.

16 CHAIRMAN GRIGGS: Do you know if that
17 tank is connected to the two wells made the subject
18 of your petition?

19 MR. LAND: Yes, sir, it is. This
20 facility, which consists of five tanks and
21 separators, is on my client's property, Mrs. Mary
22 Laird's property, and it does connect and it did
23 service these two wells and three other wells that
24 have since been plugged and abandoned. So the
25 facilities -- and Mrs. Laird has no problem with the

1 facilities, since they have remained there this long,
2 remaining for a few more months until it can be
3 determined whether they could be used for more
4 production.

5 CHAIRMAN GRIGGS: I guess we were in a
6 bit of a quandary as to why you wanted the tanks
7 removed last August. But you do not want them
8 removed now.

9 MR. LAND: Yes, sir. At that point in
10 time, there was no reason not to remove them, because
11 there was nobody available to drill the wells. And
12 basically, the situation has changed since that time.

13 CHAIRMAN GRIGGS: Mr. Tyra, I understand
14 you represent Delphi. I think you appeared on their
15 behalf in August, I believe it was, when we initially
16 heard this --

17 MR. TYRA: Yes, sir.

18 CHAIRMAN GRIGGS: -- and it's my
19 understanding you oppose this petition?

20 MR. TYRA: For the record, yes, I'm John
21 Tyra on behalf of Delphi. I filed a letter on behalf
22 of Delphi on March 14th in opposition to Mr. Land's
23 petition. I was not aware, and he was not aware
24 apparently, of these new developments. We have no
25 problem with continuing this to the May meeting while

1 he develops this potential party, this potential
2 driller.

3 We did in the letter agree to remove the
4 tank facilities and the surface facilities within 90
5 days. I guess we should suspend that as well if this
6 is continuing to move ahead.

7 CHAIRMAN GRIGGS: Mr. Land, did you get a
8 copy of the letter from Mr. Tyra?

9 MR. LAND: I did.

10 CHAIRMAN GRIGGS: And do you have any
11 objection to that being admitted into the record?

12 MR. LAND: No, sir. I appreciate the
13 expression that Mr. Brooks was going to remove the
14 tank batteries, but I suggest to the Board that it is
15 more appropriate to continue this petition and also
16 not order Mr. Brooks to do so at this time. It
17 appears in the best interest of not only Mr. Brooks
18 but all of the landowners. And it certainly would
19 prevent waste, because there's no reason to remove
20 perfectly good equipment and then move the same type
21 of equipment back in later on in the year to service
22 the same wells.

23 CHAIRMAN GRIGGS: Do you have anything
24 further, either of you?

25 MR. TYRA: No, sir.

1 MR. LAWLEY: Chairman, I make a motion we
2 continue until the May meeting.

3 MR. PEARSON: Second.

4 CHAIRMAN GRIGGS: Motion and a second.
5 This item is continued until the May hearing.

6 MR. LAND: Thank you, sir.

7 CHAIRMAN GRIGGS: Thank you, gentlemen.

8 MR. ROGERS: Next item, then, is Item 16,
9 Docket No. 03-19-13-02A, petition by Klondike Energy,
10 Limited Partnership.

11 MR. CHAIRMAN: I believe that couple back
12 there is interested and might like a copy of the
13 exhibits.

14 MR. WATSON: Mr. Chairman, I'm Tom Watson
15 here, representing Klondike Energy. I have one
16 witness, and I would like to have him sworn in,
17 please.

18 CHAIRMAN GRIGGS: Proceed, Mr. Watson.

19 MR. ROGERS: Would you state your name
20 and address, sir.

21 MR. STEPHENS: James O. Stephens,
22 Madison, Mississippi.

23 (Hearing Officer swears in witness.)

24 MR. WATSON: Mr. Chairman, I have
25 pre-filed an affidavit of notice in this matter, and

1 I would ask that it would be admitted into the
2 record.

3 (Whereupon, (Item 16) Affidavit of notice offered in
4 evidence.)

5 CHAIRMAN GRIGGS: It is admitted.
6 (Whereupon, (Item 16) Affidavit of notice received in
7 evidence.)

8 MR. WATSON: Klondike is requesting the
9 Board to enter an order establishing a new gas
10 condensate field in Choctaw County to be known as the
11 Southeast Silas Field. And we're asking that you
12 promulgate Special Field Rules for this new field and
13 that you establish a permanent production allowable
14 for the Choctaw Lumber Company 14-11 #1 Well.

15
16 JAMES STEPHENS,
17 having first been duly sworn, was examined and
18 testified as follows:

19
20 MR. WATSON: Mr. Stephens, you prepared
21 exhibits in support of this petition, have you not?

22 MR. STEPHENS: Yes, sir.

23 MR. WATSON: You have appeared before
24 this Board on numerous occasions and have on file an
25 affidavit of your qualifications as a petroleum

1 engineer; is that correct?

2 MR. STEPHENS: Yes, I do.

3 MR. WATSON: Mr. Chairman, I tender
4 Mr. Stephens as an expert witness for giving
5 testimony in this item.

6 CHAIRMAN GRIGGS: Board recognizes
7 Mr. Stephens as an expert in petroleum engineering.

8

9 (Item 16) DIRECT EXAMINATION BY MR. WATSON:

10 Q. If you would turn in your booklet of
11 exhibits, Mr. Stephens, to your Exhibit No. 1. If
12 you would describe there what we were asking the
13 Board to establish for this new field.

14 A. Exhibit No. 1 is a screen shot of the
15 State Oil and Gas Board area field map onto which
16 we've imposed the proposed Southeast Silas Field in
17 green. The proposed field is the Southwest Quarter
18 of Section 14 and the Southeast Quarter of Section
19 15, Township 9 North, Range 4 West, Choctaw County,
20 Alabama. You can see the permitted well there,
21 Permit No. 16747-B, which is the location that we
22 drilled for the discovery well.

23 This map simply shows the other wells,
24 nearby wells, and fields in the area. You can see to
25 the northwest in the green dashed outline is the

1 Silas Field, which still produces, and to the west
2 about one mile, the Zion Chapel Field outlined. That
3 field has been plugged and abandoned.

4 Q. All right, sir. Go to your Exhibit No.
5 2. Describe the information shown on that exhibit,
6 please, sir.

7 A. Exhibit No. 2 is the as-drilled survey
8 plat for the Choctaw Lumber Company 14-11 #1 Well.
9 The well was drilled from a surface location 2,211
10 feet from the south line and 1,246 feet from the west
11 line of Section 14 to a bottom hole location that was
12 directionally drilled to the top of the Smackover,
13 which was encountered 697 feet from the north unit
14 line and 1,229 feet from the west unit line. The
15 bottom hole location in the Norphlet Formation was
16 1,819 feet from the south line and 1,233 feet from
17 the west line of the unit.

18 Q. And I believe our proposed Special Field
19 Rules for wells in this field would be required to be
20 at least 660 feet from every exterior boundary of the
21 production unit; is that correct?

22 A. Yes, sir.

23 Q. All right. Let's go to your Exhibit No.
24 3, and let's define this new Smackover gas pool,
25 please, sir.

1 A. Exhibit 3 is a type log for the Choctaw
2 Lumber Company 14-11 #1 Well. It's a section of the
3 three-detector litho density TVD log. You can see
4 from the log that the top of the Smackover porosity
5 was encountered at 13,801 feet true vertical depth
6 and the base of the Smackover porosity was
7 encountered at 13,818 feet true vertical depth. The
8 Smackover porosity there was perforated from 13,804
9 feet to 13,814 feet TVD. Those perforations were
10 tested. The well flowed 144 barrels of condensate
11 per day and 854 Mcf of gas per day. On a 14/64 it
12 showed 1240 psi flowing tubing pressure, resulting in
13 a gas/oil ratio of 5,930 standard cubic feet per
14 stock tank barrel. The measured gravity of the tank
15 oil was 51.2 degrees API.

16 Q. All right, sir. Now, Mr. Stephens, as we
17 turn to Exhibit No. 4, is it true that you had
18 available to you the geological advice from Phillip
19 Reeves in preparing this Exhibit No. 4?

20 A. Yes, sir. Phillip Reeves is a consulting
21 geologist who has worked this area for many years.
22 And he mapped this prospect which we drilled and
23 ultimately completed this producing well.

24 MR. WATSON: Mr. Chairman, I've handed up
25 a copy of the pre-filed affidavit of testimony in

1 support of this petition today. And I have
2 highlighted in that affidavit of support, or
3 affidavit in support of this petition, the key
4 testimony from Mr. Reeves about this structure that's
5 on page 2.

6 Q. And you've seen Mr. Reeves's affidavit of
7 testimony. And that was the basis for this mapping
8 of the structure that's shown on Exhibit No. 4; is
9 that correct?

10 A. Yes, sir.

11 Q. All right. Describe this structure map
12 now, with the understanding that Mr. Reeves, who is
13 testifying here today by affidavit, has assisted in
14 making this map.

15 A. This map was constructed using a
16 combination of subsurface information and 3-D
17 seismic. As you can see on the map, there are only
18 two well penetrations on the structure which would
19 help in the mapping. Of course, the discovery well,
20 the Choctaw Lumber Company 14-11 #1 Well, is shown in
21 the Southwest Quarter of Section 14 there. It
22 encountered the top of the Smackover porosity at
23 13,542 feet subsea. The only other well on that
24 structure is the Norton 22-1 to the southwest, which
25 was a wet dry hole. It encountered the top of the

1 Smackover at 13,620 feet.

2 Q. All right, sir. What about this
3 porosity, possible porosity pinchout to the
4 northeast?

5 A. We have determined that several of the
6 other fields in the area actually are a combination
7 of structural and stratigraphic traps. For that
8 reason, we have drawn in a possible porosity
9 pinchout. If that porosity pinchout does not exist,
10 then the red area is probably the largest productive
11 area -- largest area that can be productive on this
12 structure due to the spill point being at 13,570 feet
13 structurally. However, as I mentioned, other fields
14 in the area have exhibited stratigraphic pinchouts
15 which could result in the field being larger, but we
16 just don't know at this time.

17 Q. All right, sir. Let's look at your
18 Exhibit No. 5, Mr. Stephens. Tell us what that
19 exhibit is and describe the information shown on it.

20 A. Exhibit No. 5 is a base map showing the
21 wells in the area and two arbitrary seismic lines.
22 It shows Line A going from the northwest to the
23 southeast, which goes through the Pruet-Hughes &
24 Hughes Smith Lumber Company 15-4 Well in the
25 Northwest Quarter of Section 15. That line extends

1 down approximately through the middle of the
2 producing unit.

3 Then there's Arbitrary Line B, which
4 extends from the southwest through the Pruet Norton
5 22-1 Well to the northeast through the proposed
6 producing unit and well location on to the -- to the
7 northeast.

8 Q. All right. Go ahead with your Exhibit
9 No. 6, which is your first arbitrary line.

10 A. Right. Exhibit No. 6 is Arbitrary Line
11 A. You can see it goes from the Smith Lumber Company
12 Well down through the Choctaw Lumber Company 14-11
13 #1. You can see from this -- and the top of the
14 Smackover is depicted by the blue line there on the
15 seismic section. You can see that the Smith Lumber
16 Company Well is quite high to our well. So it is a
17 high and wet well because there was no closure on
18 that structure, apparently. You can also see that it
19 is located on top of a separate structural feature
20 from the structural feature that the Choctaw Lumber
21 Company Well is on.

22 Q. And the red lines on this Exhibit No. 6
23 indicate the limits of the 160-acre governmental
24 quarter section; is that right?

25 A. Yes, that's correct. It shows the

1 boundaries of the unit. And it also shows that the
2 Choctaw Lumber Company 14-11 Well penetrates the top
3 of that structure very near the crest.

4 Q. All right, sir. Let's go to your Exhibit
5 No. 7, your Arbitrary Line B.

6 A. Arbitrary Line B goes from the southwest,
7 from the Norton 22-1 Well up through the discovery
8 well of Choctaw Lumber Company 14-11 #1. You can see
9 that the Norton 22-1 is quite low to the discovery
10 well and that the discovery well penetrated the
11 Smackover formation and the crest of the structure in
12 a relatively flat area across the top. You can also
13 see that near the northern unit line there's
14 significant north dip. This north dip would indicate
15 a structural closure.

16 Q. All right, sir. Now you have a
17 stratigraphic cross section, which is your Exhibit
18 No. 8. Describe that stratigraphic cross section,
19 please, sir.

20 A. The stratigraphic cross section contains
21 two logs, the LBT/CML log from the Norton Estate 22-1
22 and the three-detector litho density log on the
23 Choctaw Lumber Company 14-11. You can see there that
24 the tongue on the top of the Smackover. You can see
25 that the Smackover is relatively the same thickness

1 in both wells. You can see the Haynesville marker at
2 the top of the cross section. It seems to be very
3 consistent across the area. And on the consistent
4 Haynesville marker and the distance from the
5 Haynesville marker to the top of the Smackover
6 porosity and the similar porosity thicknesses, we
7 believe that the porosity in the Norton Well is the
8 same porosity that we see in the Choctaw Lumber
9 Company Well.

10 Q. All right, sir. Your next exhibit is the
11 first test of this well, Exhibit No. 9. Describe the
12 information on that form, please, sir.

13 A. Exhibit No. 9 shows that the perforations
14 are 13,858 feet to 13,868 feet measured depth in the
15 well. The well was tested on December 5th of 2012.
16 It tested at a rate of 144 barrels of condensate per
17 day and 854 Mcf of gas per day. Gas/liquid ratio was
18 5,930 standard cubic feet per stock tank barrel. It
19 was tested on a 14/64 choke with a final flowing
20 tubing pressure of 1,240 psi. The measured gravity
21 of the stock tank oil was 51.2 degrees API. Also
22 note that the hydrogen sulfide content was 165,000
23 parts per million, or 16.5 percent.

24 Q. All right, sir. And your next exhibit,
25 Number 10, is your Pressure Test Report. Would you

1 summarize the information on that exhibit, please,
2 sir?

3 A. This is the bottom hole pressure that was
4 run in the well approximately one week after the well
5 was shut in, after the test. This survey was run on
6 the 12th of December. It was -- the pressure was
7 measured at the middle of the perforations, which is
8 13,863 feet, and it indicated a pressure of 4,936 psi
9 and a maximum recorded temperature of 242 degrees
10 Fahrenheit.

11 Q. All right, sir. And now we come to
12 Exhibit No. 11, the PVT report.

13 A. This is a retrograde gas, PVT report done
14 by FESCO Petroleum Engineers. Page 1 of that report
15 summarizes the purpose of the study and the results.
16 The report contains the results from a laboratory
17 study performed on a recombined separator fluids from
18 the subject well. The study determined the type and
19 character of the reservoir fluid. The fluid study
20 was performed using the first stage separator oil and
21 gas samples that were obtained from the well on the
22 day of the test, December 5th, 2012. The samples
23 were gathered by FESCO. The separated gas and oil
24 were physically recombined in an individual PVT cell
25 at the reservoir temperature of 242 degrees and at

1 the measured gas/oil ratio of 5,930 standard cubic
2 feet per barrel. A retrograde dew point was observed
3 at 3,960 psi. Static reservoir pressure is higher
4 than the observed retrograde dew point; therefore,
5 the reservoir fluid exists as an undersaturated or
6 single-phase gas at static reservoir conditions at
7 4,935 psi and 242 degrees Fahrenheit.

8 Q. All right, sir. Now, in our proposed
9 Special Field Rules, Mr. Stephens, we are asking --
10 and you described this in your first exhibit at the
11 Southeast Quarter of Section 14 and -- I'm sorry, the
12 Southwest Quarter of Section 14 and the Southeast
13 Quarter of Section 15, all in Township 9 North, Range
14 4 West, Choctaw County, underlain by this Smackover
15 gas pool be considered a new field that we're
16 suggesting as the Southeast Silas Field. Is that
17 correct?

18 A. That's correct.

19 Q. And in these Special Field Rules, you're
20 providing for 160-acre production units?

21 A. Yes, sir.

22 Q. Also, because your OGB-9 shows this high
23 hydrogen sulfide content in the well stream, Rule 7
24 requires a cleansing of production; is that correct?

25 A. Yes, sir.

1 Q. So describe for the Board, if you would,
2 how you intend to comply with Rule 7 and where we are
3 at this date and time in getting this production to
4 the cleansing plant.

5 A. We intend to install and are in the
6 process of installing facilities on the location
7 which would allow the well to ultimately flow a full
8 well stream to the processing plant, such that no
9 production is collected on the site itself, and
10 therefore eliminating the hazard -- a lot of the
11 hazard with the H2S gas. We intend to install a
12 three-phase separator on location which would measure
13 the oil, gas, and water production from the well.
14 This production would be measured through meters
15 which would be calibrated monthly. Also, a sample of
16 the gas and condensate will be collected monthly.
17 After metering, these fluids will be recombined into
18 the pipeline so that full well stream flow will flow
19 about three and a half miles west in a pipeline that
20 we're also constructing and tie it into the Gin Creek
21 Field gathering line. The Gin Creek Field currently
22 produces all the way to the American Midstream Chatom
23 plant for processing, and this production would go to
24 that same plant for processing just as Gin Creek
25 Field production does.

1 Q. And the plans for the laying of this
2 pipeline and the notices required by the Board's
3 rules and regulations have been submitted to the
4 Board staff; is that correct?

5 A. Yes, that's correct.

6 Q. Have the pipeline specifications for this
7 line you just described been approved?

8 A. Yes, sir.

9 Q. Okay. And tell the Board how you will
10 allocate -- since its full well stream is going to
11 the Chatom plant, tell the Board how you will
12 allocate the production back to this unit.

13 A. The production will be measured at the
14 well site in barrels of condensate and Mcf of gas.
15 And based on those volumes and the gas and oil
16 analysis, the moles of each hydrocarbon component
17 will be calculated. This is the same method used for
18 the other seven wells that our affiliated company,
19 Crosby's Creek Oil & Gas, uses for the Gin Creek
20 Field, the Crosby's Creek Field, and the Copeland
21 Field. The moles of each component are calculated,
22 and all the production is commingled as it goes into
23 an inlet separator at the plant. At the plant then,
24 the moles are calculated again as the inlet -- inlet
25 production. And that inlet production is allocated

1 back to each of the wells based on their monthly
2 measurement.

3 Q. All right, sir. Is it your
4 recommendation to this Board that that is a prudent
5 and fair way to allocate the production back, and
6 does that comply with the Board's rules and
7 regulations relative to the protection of correlative
8 rights?

9 A. Yes, it does.

10 Q. Look back if you would, please, at your
11 Exhibit No. 4. You've asked that this new field
12 consist of really 320 acres, two governmental quarter
13 sections. Is all of the production for this Choctaw
14 Lumber Company 14-11 Well currently contained within
15 the proposed 160-acre production unit?

16 A. As far as we know. We really don't know
17 the productive limits of the field. You can see
18 there's a question mark on the map there. As I
19 stated, that's about as far downdip as the production
20 can exist if this is a structural -- strictly a
21 structural trap. However, if there is a porosity
22 pinchout, the field could be slightly larger, could
23 carry on over into Section 15. But we don't have any
24 basis for drawing production in Section 15 so far.

25 Q. Do you have any plans to drill in the

1 Southeast Quarter of Section 15?

2 A. If the Choctaw Lumber Company Well held
3 up significantly for a long time, we might be
4 encouraged to drill a well in the Southeast Quarter
5 of Section 15.

6 Q. You are aware, are you not, Mr. Stephens,
7 of the statutory option of expanding production units
8 based upon certain criteria spelled out in the
9 statutes, where you could enlarge the 160-acre unit
10 to take in an area that would be in imminent danger
11 of being drained without otherwise being protected
12 were it were not included in a unit, up to 50 percent
13 the size of the current 160-acre unit?

14 A. I am aware of that possibility.

15 Q. And are you testifying to this Board
16 today that if, as this well produces, it becomes
17 evident to your company that additional area should
18 be included, that you would bring that evidence to
19 the Board for a determination as to whether this unit
20 should be enlarged?

21 A. Yes.

22 MR. WATSON: Mr. Chairman, I would ask
23 that you receive into the record of this hearing
24 today the exhibits testified to by Mr. Stephens and
25 the pre-filed affidavit of testimony of Mr. Reeves.

1 (Whereupon, (Item 16) Klondike Exhibits 1 through 11
2 offered in evidence.)

3 CHAIRMAN GRIGGS: They're admitted into
4 the record.

5 (Whereupon, (Item 16) Klondike Exhibits 1 through 11
6 received in evidence.)

7 Q. Would the granting of this petition and
8 promulgation of these Special Field Rules and the
9 establishment of this new field promote orderly
10 development, prevent waste, and protect correlative
11 rights?

12 A. Yes, it would.

13 MR. WATSON: I tender my witness to you,
14 Mr. Chairman, Members of the Board, and the staff.

15 CHAIRMAN GRIGGS: Any questions by you or
16 the staff?

17 MR. McQUILLAN: Mr. Stephens, do you
18 know, have you submitted your plat here as drilled to
19 our permitting department?

20 THE WITNESS: Yes, we have.

21 MR. McQUILLAN: Okay. With an amended
22 one?

23 MR. WATSON: With a what?

24 MR. McQUILLAN: An amended OGB-1.

25 THE WITNESS: Yes, we have. The form

1 checkers on the staff had asked for a couple of
2 corrections on the OGB-1, which we did correct, and
3 have mailed that. I don't know if it has been
4 received yet.

5 MR. McQUILLAN: Okay. Well, great, thank
6 you.

7 CHAIRMAN GRIGGS: Mr. Pearson, any
8 questions?

9 MR. PEARSON: Mr. Watson, on the
10 allocation back testimony, I don't note that that is
11 actually in Special Field Rules that have been
12 submitted. Rule 8 talks about measurement of
13 production.

14 MR. WATSON: Yes.

15 MR. PEARSON: I guess I'm just clarifying
16 for the record, the Board's consideration in granting
17 of this petition would be Rule 8 as written.

18 MR. WATSON: Yes.

19 MR. PEARSON: Correct?

20 MR. WATSON: Yes, sir.

21 MR. PEARSON: And Mr. Stephens' testimony
22 was simply a discussion or enhancement of some
23 suggestions about that?

24 MR. WATSON: How it works, yes, sir. And
25 how -- yes, sir, that's right.

1 MR. PEARSON: All right. I don't have my
2 further questions, then.

3 CHAIRMAN GRIGGS: Do you have -- it's my
4 understanding you have an interest in this. Would
5 you like to make a comment or ask any questions? If
6 you do, if you would come up to the microphone.

7 UNIDENTIFIED SPEAKER: No. Thank you.

8 CHAIRMAN GRIGGS: You're welcome.
9 Is there a motion on this?

10 MR. PEARSON: Mr. Chairman, I move that
11 we grant Item 16, which is the petition of Klondike
12 Energy, LP.

13 CHAIRMAN GRIGGS: Have a motion. Is
14 there a second?

15 MR. LAWLEY: Second.

16 CHAIRMAN GRIGGS: Have a motion and a
17 second. All in favor say "aye." Ayes have it.
18 Petition is granted.

19 MR. WATSON: Thank you.

20 MR. ROGERS: Next item is Item 21, Docket
21 No. 03-19-13-07, Petition by Land and Natural
22 Resource Development, Incorporated.

23 MR. WATSON: Mr. Chairman, I have one
24 witness. I'd like to have him sworn in, please, sir.

25 MR. ROGERS: State your name and address.

1 MR. HIGGINBOTHAM: David Higginbotham,
2 Tuscaloosa, Alabama.

3 (Hearing Officer swears in the witness.)

4 MR. WATSON: Mr. Chairman, I am Tom
5 Watson, representing Land and Natural Resource
6 Development, Inc., and I pre-filed an affidavit of
7 notice in this matter. I would like to have it
8 admitted into the record.

9 (Whereupon, (Item 21) Affidavit of notice offered in
10 evidence.)

11 CHAIRMAN GRIGGS: It's admitted into the
12 record.

13 (Whereupon, (Item 21) Affidavit of notice received in
14 evidence.)

15 MR. WATSON: Land and Natural Resources
16 Development, Inc. is asking the Board to approve a
17 160-acre wildcat drilling unit for the reentry and
18 completion of the Chunn 2-9 Well on a 160-acre unit
19 consisting in the South Half of the Northeast Quarter
20 and the North Half of the Southeast Quarter of
21 Section 2, Township 3 North, Range 6 East, Escambia
22 County, Alabama, as an exception to Rule
23 400-1-2-.02(2)(b) of the State Oil and Gas Board's
24 Administrative Code.

25 If I might point out for the record that

1 this same unit that we're requesting to be approved
2 today was previously granted administratively, and
3 Mr. Higginbotham will give you the history of that.
4 My expert witness is David Higginbotham, who has
5 appeared before you on numerous occasions and has on
6 file an affidavit of his qualifications as a
7 petroleum geologist.

8 Mr. Higginbotham, have you prepared
9 exhibits in support of the petition that the Chair
10 has called today?

11 MR. HIGGINBOTHAM: Yes, sir.

12 MR. WATSON: I tender him as an expert
13 geological witness for giving testimony, Mr.
14 Chairman.

15 CHAIRMAN GRIGGS: Board recognizes
16 Mr. Higginbotham as an expert petroleum geologist.

17
18 DAVID HIGGINBOTHAM,
19 having been first duly sworn, was examined and
20 testified as follows:

21

22 (Item 21) DIRECT EXAMINATION BY MR. WATSON:

23 Q. Mr. Higginbotham, if you would refer to
24 your Exhibit No. 1, please, which is a plat of this
25 location I just described, and tell the Board what's

1 shown there.

2 A. Exhibit No. 1 is a plat of our proposed
3 location. Outlined in red is the proposed unit. The
4 scale of this plat is one inch equals 1,000 feet.
5 Our unit consists of the South Half of the Northeast
6 Quarter and the North Half of the Southeast Quarter.

7 Q. And, Mr. Higginbotham, is this Chunn
8 well, as it's located, is it a legal location in
9 accordance with the rules; that is, more than 660
10 feet, or at least 660 feet from every exterior
11 boundary of this proposed 160-acre unit?

12 A. Yes, sir, it is a legal location.

13 Q. All right. Let's go to your Exhibit No.
14 2. Tell the Board what this exhibit is and describe
15 the information there, please, sir.

16 A. Exhibit No. 2 is a structure contour map
17 on top of the Smackover formation. The contour
18 interval is 25 feet. The proposed unit, again, is
19 outlined in red. The Chunn Well was drilled in 2003
20 by Ventex. And Ventex drilled their well, logged it,
21 cored it, and plugged the well. That well
22 encountered the top of the Smackover at a subsea
23 depth of minus 13,768, and that well encountered an
24 oil-water contact at a subsea depth of minus 13,801.
25 The structure contour map illustrates that the

1 interpreted oil accumulation is trapped on a four-way
2 dip closure. The scale of the map is one inch equals
3 1,000 feet.

4 Q. All right, sir. Let's look at your next
5 exhibit, Number 3, which is a log from that well, and
6 let's tell the Board what's shown on that exhibit,
7 please, sir.

8 A. This next exhibit is a log, high
9 resolution induction special density dual spaced
10 neutron microlog. This log shows the formation tops
11 for the Buckner formation and for the Smackover
12 formation. The top of the Smackover is at a log
13 depth of minus 4 -- excuse me, is at a log depth of
14 14,151. And this is -- equates to a subsea depth of
15 minus 13,768 true vertical depth. This well
16 encounters an oil-water contact at a log depth of
17 14,184, which corresponds to the true vertical depth
18 of minus 13,801.

19 In the right column of this exhibit is a
20 summary of the Smackover reservoir. It has 33 feet
21 of oil in the Smackover oil column, with 16 feet of
22 microlog separation with 7 to 10 percent porosity. A
23 conventional core was taken over this well, and the
24 conventional core illustrates that there was 10 feet
25 of permeability of half a millidarcy or greater, 7

1 feet permeability greater than one millidarcy, and 3
2 feet of permeability greater than 18 millidarcies,
3 for a maximum permeability of 30 millidarcies in the
4 well bore.

5 Q. What is Land and Natural's plan relative
6 to the entry of this well?

7 A. Land and Natural plans to reenter the
8 well, set casing, and perforate the top of the
9 Smackover approximately eight feet, from 14,151 to
10 14,159.

11 Q. All right, sir.

12 A. And if necessary, acidize the well.

13 Q. All right, sir. Your last exhibit,
14 Exhibit No. 4, Mr. Higginbotham, tell us what that
15 exhibit is and why it's included in this package of
16 exhibits.

17 A. Exhibit No. 4 is an exhibit that Ventex
18 Operating submitted to the Board for the East
19 Chitterling Creek oil field. And the purpose of
20 putting this exhibit in here was to illustrate that
21 the top of the Smackover formation in the Ventex well
22 is 62 feet structurally low to the oil-water contact
23 in the Land, Inc. proposed reentry of the Chunn well.

24 Q. So that says, then, these are two
25 separate and distinct oil pools; is that correct?

1 A. Yes, sir, that's correct.

2 Q. So that if your reentry of the Chunn Well
3 is successful and you're able to produce, then we
4 would be setting up a separate field from the
5 Chitterling Creek Field?

6 A. Yes, sir, that's correct.

7 Q. All right, sir. Mr. Higginbotham, if the
8 Board sees fit to grant this petition to allow Land
9 and Natural to reenter this well, would that prevent
10 waste and would correlative rights be protected?

11 A. Yes, sir, it would.

12 Q. As you've mapped this potential oil
13 accumulation, it appears from your Exhibit 2 that all
14 of the potential oil production is contained within
15 the 160-acre unit; is that correct?

16 A. Yes, sir, that's correct.

17 MR. WATSON: Mr. Chairman, I would ask
18 that you receive into the record this hearing and
19 Exhibits 1 through 4 to the testimony of
20 Mr. Higginbotham.

21 (Whereupon, (Item 21) Land And Natural Resource
22 Development, Inc. Exhibits 1 through 4 offered in
23 evidence.)

24 CHAIRMAN GRIGGS: Exhibits 1, 2, and 3
25 are admitted into the record. And Exhibit No. 4,

1 which is dated March 11, 2013, but also appearing on
2 there, it's identified as Exhibit 3 on Docket No.
3 3-7-06-6, is admitted into the record.

4 (Whereupon, (Item 21) Land And Natural Resource
5 Development, Inc. Exhibits 1 through 4 received in
6 evidence.)

7 MR. WATSON: Thank you, sir. And I
8 tender my witness to the Board and staff for any
9 questions you have.

10 CHAIRMAN GRIGGS: Any questions by you or
11 the staff? Is there a motion on this item?

12 MR. LAWLEY: I make a motion to grant the
13 petition.

14 MR. PEARSON: Second.

15 CHAIRMAN GRIGGS: Motion and a second.
16 All in favor, say "aye." Ayes have it. Petition is
17 granted.

18 MR. WATSON: Thank you, Mr. Chairman.

19 MR. ROGERS: Next item is Item 24, Docket
20 No. 03-19-13-10, petition by Stetson Petroleum
21 Corporation.

22 MR. TYRA: I have one witness to be sworn
23 in, please.

24 MR. ROGERS: State your name and address.

25 MR. DAYTON: My name is John Dayton. I

1 reside at 183 Basin View Road, Big Fort, Montana.

2 (Hearing Officer swears in the witness.)

3 MR. TYRA: Mr. Chairman, I'm John Tyra
4 again, on behalf of Stetson Petroleum Corporation.
5 We have filed a petition asking approval of a
6 nongovernmental 160-acre production unit for the
7 proposed Coley 35-5 #1 Well. The unit is to consist
8 of the South Half of the Northwest Quarter and the
9 North Half of the Southwest Quarter, Section 35,
10 Township 4 North, Range 7 East in Conecuh County,
11 Alabama, in the Barnett Field. We note that Rule 3
12 of the Special Field Rules for the Barnett Field
13 allows wells to be drilled on approximately 160
14 contiguous surface acres upon which no other drilling
15 or producible well is located.

16 My witness is new to the State of Alabama
17 and has not testified.

18

19 JOHN DAYTON,

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

22

23 MR. TYRA: But I will ask you, Mr.
24 Dayton, have you on record a copy of your resumé?

25 MR. DAYTON: I do.

1 MR. TYRA: And would you briefly go over
2 your background, both work experience and your
3 educational experience?

4 MR. DAYTON: Okay. I have a B.S. in
5 chemical and petroleum refining engineering from
6 Colorado School of Mines in 1974. Ever since that
7 time, I've worked in the production end of the
8 business, though, rather than the refining end of the
9 business. I was an operations and facilities
10 engineer in Cook Inlet, Alaska, Colorado, and Wyoming
11 with Amoco Production Company, 1974 through 1979. I
12 was with -- moved companies. I was with Arco,
13 working on the Kuparuk Oilfield development,
14 operations engineering team from 1979 to '83. Cook
15 Inlet and Lisburne engineering supervisor from '83 to
16 '84. I worked on the Lisburne Oilfield development
17 as engineering manager for Arco Alaska from '84 to
18 '88. I was Kuparuk Oilfield operations manager on
19 the North Slope of Alaska for '88 and '89. I was
20 Prudhoe Bay operations manager in the Eastern
21 Operating Area operated by Arco, '89 to '91. Then a
22 Prudhoe Bay projects and construction manager from
23 '91 to '93. After that, I was vice president of
24 operations for the Trans-Alaska Pipeline with the
25 Alyeska Pipeline Service Company from '93 to '97.

1 And I'm currently working as a petroleum consultant
2 for Stetson Petroleum.

3 MR. TYRA: All right, sir. I'll ask you,
4 in that capacity as consultant for Stetson Petroleum,
5 are you familiar with the request to drill this well
6 and also familiar with the petition that has been
7 filed in this matter?

8 MR. DAYTON: I am.

9 MR. TYRA: And are there exhibits that
10 have been prepared in support of that petition that
11 you're going to be testifying to?

12 MR. DAYTON: Yes, there are. We have
13 three exhibits.

14 MR. TYRA: All right, sir. I would ask
15 that Mr. Dayton be recognized as an expert witness to
16 testify in this matter, please.

17 CHAIRMAN GRIGGS: Mr. Tyra, the Board
18 will recognize Mr. Dayton as a petroleum refining
19 engineer. And we would request that you take his
20 resumé that you provided to the Board and ask him to
21 sign and date it.

22 MR. TYRA: Yes, sir. Would be happy to
23 do that.

24 While he's doing that, I have pre-filed
25 an affidavit of notice that I would ask be made a

1 part of the record at this time.

2 (Whereupon, (Item 24) Affidavit of notice offered in
3 evidence.)

4 CHAIRMAN GRIGGS: It's admitted into the
5 record.

6 (Whereupon, (Item 24) Affidavit of notice received in
7 evidence.)

8 MR. TYRA: We also pre-filed an affidavit
9 of confidentiality concerning an exhibit, but
10 actually, we will not be using that exhibit today.
11 So I guess there's no reason to admit that at this
12 point.

13 CHAIRMAN GRIGGS: The Board will admit
14 his resumé into the record.

15 (Whereupon, (Item 24) John Dayton's resumé offered
16 and received in evidence.)

17 MR. TYRA: Thank you very much.

18

19 (Item 24) DIRECT EXAMINATION BY MR. TYRA:

20 Q. Mr. Dayton, I would ask that you turn to
21 your Exhibit 1 and explain what that shows, please.

22 A. The first exhibit is a drilling plat
23 which shows the drilling unit of 160 acres outlined
24 with a red dashed line. It shows the surface
25 location of the well, and it shows the bottom hole,

1 or intended bottom hole location of the well. The
2 well is being drilled as a directional well due to
3 terrain considerations. The bottom hole location is
4 directly underneath a creek.

5 Also on this plat you'll see the
6 Alger-Sullivan Well, which is a little bit to the
7 southeast of the center of the section there. This
8 was the discovery well for the Barnett Field. It was
9 drilled back in 1975. It was -- last produced in
10 1994 and has been plugged since then.

11 Q. All right, sir. So after the
12 Alger-Sullivan Well was drilled, were Special Field
13 Rules adopted for the Barnett Field?

14 A. Yes, they were.

15 Q. And that was in 1975 as well; is that
16 correct?

17 A. Correct.

18 Q. Now, the Special Field Rules, Rule 3 of
19 the Special Field Rules require spacing of 160
20 contiguous acres upon which no other drilling or
21 producible well is located; is that correct?

22 A. That's correct.

23 Q. And so the proposed unit is 160 units
24 with no other wells on it; is that correct?

25 A. That is correct.

1 Q. It also requires all wells to be 1,320
2 feet from every other drillable or producible well in
3 the field. Now, is that requirement met by your
4 location?

5 A. Yes, it is.

6 Q. And finally, it requires that you be at
7 least 660 feet from every exterior boundary. Is the
8 location of the proposed well, does it meet that
9 requirement?

10 A. Yes, it does. The proposed bottom well
11 location is 998 feet from the west line and 964 feet
12 from the north line of the proposed unit.

13 Q. All right, sir. If you had a need to
14 have a governmental unit consisting of that Northwest
15 Quarter, that location would be an exceptional
16 location, wouldn't it? Would it not be?

17 A. Yes, it would be.

18 Q. It would be too close to the south line;
19 is that correct?

20 A. That's correct.

21 Q. All right, sir. Let's turn to your
22 Exhibit 2, and explain what that shows, please.

23 A. Exhibit 2 shows some of the other
24 existing units that have been approved within the
25 Barnett Field, boundaries in the East Barnett Field,

1 Northeast Barnett Field, and North Barnett Field.
2 I'll apologize maybe for the use of the word
3 "non-conforming." We couldn't find a better label.
4 Basically, they all conform completely to the Field
5 Rules, but they're not in line with just governmental
6 quarter sections.

7 Q. All right, sir. And your proposed unit
8 is the one in green; is that correct?

9 A. It's the one in green, that's correct.

10 Q. And I notice there are two producing
11 wells in the Barnett Field and only two producing
12 wells. Are those being operated by Stetson as well?

13 A. Yes, they are. The two Scott Paper
14 wells, Scott Paper 3-2 and Scott Paper 28.

15 Q. 35?

16 A. Oh, 35. Thank you.

17 Q. 35-8? Okay. And both of those are also
18 in split units; is that correct?

19 A. That's correct.

20 Q. And so they are in compliance with the
21 Special Field Rules, they're just not governmental
22 sections?

23 A. That's correct.

24 Q. All right, sir. Let's look at your
25 Exhibit 3, which is your structure map. And if you

1 will explain --

2 A. This is a structure map for the top of
3 Smackover structure. The scale is one inch equals
4 1,000 feet, and the contour interval is 20 feet. It
5 shows both the surface location, the proposed bottom
6 hole location, and it shows the distance to the
7 nearest producing well, which is the Scott Petroleum
8 -- or excuse me, the Stetson Petroleum Scott Paper
9 35-8, of 3,800 feet.

10 You can see we have structural closure on
11 three sides. And then the fourth side, you would
12 have basically a well that has produced to its
13 economic limit and been abandoned. So the red dashed
14 line is of course the 160-acre proposed drilling
15 unit.

16 Q. All right, sir. Is the location that you
17 have there, in your opinion, the optimal geological
18 location of this well?

19 A. Yes, it is. We believe the northwest
20 flank has a better chance of higher permeability and
21 porosity due to the environmental conditions at the
22 time of the deposition of the oolitic structure.

23 Q. All right, sir. And the wells to the
24 south, they're both dry holes; is that correct?

25 A. That's correct.

1 Q. Then you have the producing well that was
2 plugged and abandoned to the southeast?

3 A. Southeast.

4 Q. And then directly east you have a dry
5 hole as well?

6 A. That's correct.

7 Q. What about north of the proposed unit,
8 what do you --

9 A. Well, that would be well down-structure,
10 and so therefore, it would be below any water-oil
11 contact.

12 Q. All right, sir. Are you seeing any
13 communication between these wells, the production
14 wells and your proposed well?

15 A. No.

16 Q. All right, sir. In your opinion, then,
17 this is the optimal geological location. Would it
18 also prevent waste, as that term is defined by our
19 laws and statutes here in Alabama?

20 A. Yes, it would.

21 Q. And would it protect correlative rights
22 and avoid the drilling of unnecessary wells?

23 A. Yes, it would.

24 Q. Is it your opinion that the entire
25 productive formation that you're going for is located

1 within the proposed unit?

2 A. Yes, it is. Because of the structural --
3 it's a relatively small structure.

4 Q. All right, sir.

5 MR. TYRA: I would tender the witness for
6 any questions the Board may have at this time.

7 MR. McQUILLAN: Mr. Tyra, you had also
8 filed an affidavit of testimony in support of the
9 petition from an H. Pete Berg?

10 THE WITNESS: Yes. Mr. Berg is the
11 president of Stetson Petroleum Corporation.

12 MR. McQUILLAN: Are you also going to
13 submit that, put that in the record?

14 MR. TYRA: I think probably not, since we
15 had live testimony. We have a live witness as well.

16 No, sir, we'll not submit it. We'll do
17 it on the basis of the testimony of Mr. Dayton.

18 CHAIRMAN GRIGGS: Mr. Tyra, you're
19 requesting that we admit Exhibits 1 through 3 into
20 the record?

21 MR. TYRA: Yes, sir, please.

22 MR. ROGERS: And the affidavit of notice?

23 MR. TYRA: And the affidavit of notice.

24 (Whereupon, (Item 24) Stetson Exhibits 1 through 3
25 offered in evidence.)

1 CHAIRMAN GRIGGS: They're admitted into
2 the record. Anything further?

3 Is there a motion?

4 (Whereupon, (Item 24) Stetson Exhibits 1 through 3
5 received in evidence.)

6 MR. PEARSON: I move that we grant the
7 petition styled as Item 24, which is the petition of
8 Stetson Petroleum.

9 CHAIRMAN GRIGGS: Motion. Is there a
10 second?

11 MR. LAWLEY: Second.

12 CHAIRMAN GRIGGS: Motion and second. All
13 in favor say "aye." Ayes have it. Petition is
14 granted.

15 MR. TYRA: Thank you very much.

16 CHAIRMAN GRIGGS: Is there a motion to
17 adjourn?

18 MR. LAWLEY: So moved.

19 MR. PEARSON: Second.

20 CHAIRMAN GRIGGS: The meeting stands
21 adjourned.

22 (END OF PROCEEDING 11:33 a.m.)

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C E R T I F I C A T E

STATE OF ALABAMA)
COUNTY OF JEFFERSON)

I hereby certify that the above and foregoing proceeding was taken down by me by stenographic means, and that the content herein was produced in transcript form by computer aid under my supervision, and that the foregoing represents, to the best of my ability, a true and correct transcript of the proceedings occurring on said date at said time.

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 case.

/s/ Lane C. Butler
LANE C. BUTLER, RPR, CRR, CCR
CCR# 418 -- Expires 9/30/13
Commissioner, State of Alabama
My Commission Expires: 2/11/17

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