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STATE OIL AND GAS BOARD OF ALABAMA

2

Tuscaloosa, Alabama

3

August 5, 2014

4

Testimony and proceedings before the State Oil and Gas Board

5

in Regular Session in the Board Room of the State Oil and Gas Board Building,

6

University of Alabama Campus, Tuscaloosa, Alabama, pursuant to adjournment, on

7

this 5th day of August, 2014.

8

9

STAFF

10

11

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

12

Mr. Marvin Rogers.....General Counsel

13

Mr. Kirk McQuillan.....Technical Operations Manager

14

Mr. Butch Gregory.....Engineer

15

Mr. Randy Oglesby.....Geologist

16

Mr. Elbert Patterson.....Engineer

17

Mr. Bob Roark.....Geologist

18

Ms. April Merritt.....Legal Research Assistant

19

Ms. Ann Arnold.....Geologist

20

Mr. Jacques Chasse.....Geologist

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6 MR. ROGERS: This hearing is in session. Doctor Tew, have the

7 items for the August 5 and August 7, 2014 meetings been properly noticed?

8

9 DR. TEW: The items on the August 5th and August 7th docket have

10 been properly noticed and the docket is due to be admitted into the record.

11

12 MR. ROGERS: The Board's staff and I have received and compiled

13 the proofs of publication for the items appearing on the docket for the first

14 time. The proofs of publication received for the items on the August 5th and

15 August 7th, 2014, docket are admitted into the record. Furthermore, copies of

16 the information posted on the web site of the Secretary of State announcing

17 these two meetings of the State Oil and Gas Board on August 5th and August 7th,

18 2014 are also admitted into the record.

19

20 I have an order for the State Oil and Gas Board appointing me as

21 hearing officer to conduct this hearing on behalf of the Board. The order will

22 be made a part of the record at this time.

23

24 The procedure for this meeting is as follows: The hearing officer

25 and the staff will hear items on the docket today. The State Oil and Gas Board

26 hear the recommendations of the hearing officer, contested items, and certain

27 other items beginning at 10 a.m. on Thursday, August 7th, 2014 here at the

28 office of the State Oil and Gas Board.

29

30 We have a number of recommendations. We have good bit of number

31 of items on the docket. If you will listen and let us know if you have any

1 corrections.

2 Item 29, Docket No. 8-5-14-17 is petition by Venture Oil and Gas,
3 Incorporated. We will recommend that petition be dismissed without prejudice.

4 Item 9, Docket No. 6-16-14-12A is a petition by -- I will just
5 list all the continuances.

6 It is recommended that these items be continued:

7 Item 9, Docket No. 6-16-14-12A, petition by Texas Petroleum
8 Investment Company, Incorporated. Actually our recommendation will be to
9 continue that petition with the stipulation that the temporarily abandoned
10 status for the well, subject to that petition, is extended to the next regularly
11 scheduled meeting of the Board. Following items also recommended to be
12 continued.

13 Item 10, Docket No. 6-16-14-16, petition by Pruet Production
14 Company.

15 Item 11, Docket No. 6-16-14-17, petition by Pruet Production
16 Company.

17 Item 12, Docket No. 6-16-14-18, petition by Texas Petroleum
18 Investment Company, Incorporated. That relates to petition for temporary
19 abandonment status. We recommend that that petition be continued under the
20 stipulation for the temporary abandonment status for the well subject to the
21 petition is extended for the next regularly scheduled meeting of the Board.

22 Item 18, Docket No. 8-5-14-06, petition by Land and Natural
23 Resource Development, Incorporated. We recommend that petition be continued.

24 Item 19, docket No. 8-5-14-07, petition by Black Warrior Methane
25 Corporation and Item 20, Docket No. 8-5-14-08, petition by Black Warrior Methane

1 Corporation. We will recommend that those two petitions be continued.

2 We will also recommend that these four petitions be continued.

3 Item 5, Docket No. 6-16-14-03A, petition by Mississippi Resources, LLC; Item 6,
4 Docket No. 6-16-14-08A, petition by Mississippi Resources; Item 7, Docket No.
5 6-16-14-05A, petition by Mississippi Resources; and Item 8, Docket No.
6 6-16-14-06A, petition by Mississippi Resources, LLC. We will recommend that all
7 four of those petitions be continued.

8 We have set for the Board's hearing on Thursday these items, one
9 of these might be heard today, we will discuss that with Mr. Watson. These are
10 petitions by Ventex, Item 3, Docket No. 5-6-14-15, petition by Ventex Operating
11 Corporation; Item 4, Docket No. 5-6-14-16, petition by Ventex. Which one is
12 that, Mr. Watson, that is unopposed we shall include? Tom?

13 MR. WATSON: Yes, I am looking. That is Item 22.

14 MR. ROGERS: All right. So we have Item 21 set for the Board,
15 Docket No. 8-4-14-09, petition by Ventex Corporation. For now we will skip Item
16 22, that may be heard today. Item 23, Docket No. 8-5-14-11A, petition by Ventex.
17 Item 24, Docket No. 8-5-14-12A, petition by Ventex. Also for hearing by the
18 Board is Item 31, Docket No. 8-5-14-19, petition by Spooner Petroleum Company
19 Incorporated.

20 Any corrections or changes to those recommendations?

21 MR. WATSON: Mr. Rogers, I am sorry, it is Item 30, exceptional 40
22 acre Wildcat unit, Item 30.

23 MR. ROGERS: All right. Let's go back through that.

24 MR. WATSON: 22 is for the Board.

25 MR. ROGERS: Item 22 is definitely set for the Board, docket No.

1 8-5-14-10, petition by Ventex Operating Corporation.

2 Mr. Watson, we have 30 to be scheduled today. Are you able to
3 ascertain whether you can proceed with that or do you want to -- we will put it
4 to the end of the docket and you --

5 MR. WATSON: Put it to the end of the docket I and I will let you
6 know.

7 MR. ROGERS: All right. Just for clarification, following Ventex
8 items are set for hearing by the Board. Item 3, 4, 21, 22, 23, 24 and for now
9 we have 30 to be heard today, Mr. Watson, and you will let us know if you can
10 proceed. Petition by Ventex Operating Corporation, Docket No. 8-5-14-18 for a
11 exceptional unit.

12 All right any other comments or changes?

13 Then we will proceed. The first item is Item 1, Docket No.
14 4-1-14-05, petition by Gas Processors Incorporated.

15 MR. TYRA: Mr. Rogers, I am John Tyra here on behalf of Gas
16 Processors, Inc. I have one witness to be sworn in, please.

17 MR. ROGERS: Will you stand and state your name and address? Your
18 name, sir.

19 THE WITNESS: Greg Robbins.

20 MR. ROGERS: What is your address?

21 THE WITNESS: Home address, business address?

22 MR. ROGERS: How about your business address?

23 THE WITNESS: 21 Wesley Road, Columbia, Mississippi, 39429.

24 GREG ROBBINS,

25 Being first duly sworn,

1 Was examined and testified as follows:

2 EXAMINATION

3 BY MR. TYRA:

4 Q. Mr. Rogers, Docket 4-1-14-05 is a request by Gas Processors, Inc.
5 to be approved to be the operator of the Wild Fork gas field, which is in
6 Section 7, Township 5 North, Range 7 East, that is located in Monroe County,
7 Alabama. Mr. Robbins, I will first ask you, have you previously testified before
8 this Board?

9 A. I have.

10 Q. And your testimony at that time was accepted as an expert in the
11 field of plant operations; is that correct?

12 A. It was.

13 Q. And are you familiar with the petition that we have filed in this
14 matter concerning the Wild Fork gas plant?

15 A. I am.

16 Q. I would ask that Mr. Robbins be recognized as a expert to testify
17 today as to this matter.

18 MR. ROGERS: Why don't you briefly go through that, Mr. Tyra, and
19 also we would like to have his title and what his position is with the company.

20 Q. Exactly. How many years experience have you had as plant operator,
21 Mr. Robbins?

22 A. In excess of 25.

23 Q. In excess of 25. What is your current position with Gas
24 Processors, Inc.?

25 A. I am the president of the company.

1 Q. All right, sir.

2 MR. ROGERS: President of the company. Are you engineer, sir?

3 THE WITNESS: I am not an engineer, no, sir.

4 MR. ROGERS: Your background was with what company?

5 THE WITNESS: Flare Incorporated originally in the gas processing
6 business and then with Mico Synergy Resources and then Bridge and finally Gas
7 Processors.

8 Q. And those plant operations that you were involved with commenced
9 around 1978; is that correct?

10 A. '79.

11 MR. ROGERS: Are you intimately familiar with these plants?

12 THE WITNESS: I am, yes, sir.

13 MR. ROGERS: Thank you. He is recognized as an expert.

14 Q. How many states does Gas Processors operate in currently?

15 A. We have operations currently in five states.

16 Q. All right. We will be before the Board on two plants today, the
17 Wild Fork and later the Atmore plant. Do you have other plants in Alabama that
18 you operate?

19 A. We operate the Castleberry plant in Little Cedar Creek Field and
20 we operate Neurob plant which is near Goodway, Alabama.

21 Q. All right, sir. Now your corporate offices are in Columbia,
22 Mississippi, but you do have field offices here in Alabama; is that correct?

23 A. That is correct.

24 Q. Where is that field office?

25 A. Little Cedar Creek Field at Castleberry gas plant.

1 Q. All right, sir. We are first looking at this Wild Fork gas plan. I
2 indicated it is in Section 7, Township 5 North, Range 7 East; that is in Monroe
3 county; is that correct?

4 A. That is right.

5 Q. From whom did you purchase this plant? Who was operating it
6 before you purchased it?

7 A. American MidStream.

8 Q. All right, sir. This plant is serving two wells; is that correct,
9 the Spooner well and Edwards well; is that correct?

10 A. That is correct.

11 Q. And the Courtesy Smith is the Smith -- is the plant operated by
12 Spooner and the Nettles 912 is the one by Edwards; is that correct?

13 A. That is correct.

14 Q. I think the Edwards plant is approximately three miles from the
15 plant and the Spooner well is about five miles from the plant; is that correct?

16 A. Yes.

17 Q. All right. Now you are receiving gas from those wells; is that
18 correct?

19 A. That is correct.

20 Q. And then what do you do with the gas once it gets to your plant,
21 why is it necessary to bring it to your plant?

22 A. The gas is -- the only market for the gas in that area is the
23 local utility company. And it has, as all gas does, high water vapor content,
24 so it has to be dehydrated. Then it also has excessive amounts of propane,
25 butanes, natural gas liquids that have to be removed. And that is what we do is

1 we dehydrate it, remove those liquids and make it a marketable gas stream.

2 Q. So it is not marketable when you receive it, but once you do
3 receive it then it is marketable at that time?

4 A. That is correct.

5 Q. About how many production streams did you produce from that plant?

6 A. As far as marketable streams, we have the NGO product that is sold
7 and trucked out, and it is a raw mix NGO product. Then we have a natural gas
8 stream that is sold to South Alabama Gas District.

9 Q. That is the natural gas utility in that area of South Alabama; is
10 that correct?

11 A. That is correct.

12 Q. All right, sir. If this petition is granted, is Gas Processors
13 willing to assume the responsibilities of operator of the Wild Fork gas plant?

14 A. We are.

15 Q. Are you prepared to comply with all Board orders pertaining to the
16 operation of that plant?

17 A. Yes.

18 Q. Are you prepared to take all actions necessary as operator to
19 ensure that the plant is operated in a safe manner?

20 A. Yes.

21 Q. Is Gas Processors qualified to operate the Wild Fork gas plant in
22 a safe and prudent manner and in accordance with the rules and regulations of
23 this Board?

24 A. We are.

25 Q. All right, sir. In the event that in the future you decide to

1 close down the plant for any reason, what would be your plan for the equipment
2 and things of that nature?

3 A. We would salvage the equipment, bring it back to our yard and
4 reemploy it on future project. We would restore the site and make it back to as
5 near as possible its original --

6 Q. Condition that you --

7 A. Yes.

8 Q. Do you have an estimate of the cost of the reclamation, because
9 the salvage will be to your benefit because you can use the equipment otherwise,
10 but do you have an idea of what the cost of reclamation of the area might be?

11 A. We haven't gotten a quote from anybody on it because we are not
12 ready to do that, but I am going to guess \$25,000.

13 Q. All right, sir. In your opinion if this petition is granted, would
14 that prevent waste?

15 A. It would.

16 Q. All right, sir. I am going to tender the witness for any
17 questions at this time that the staff may have or you may have, Mr. Rogers.

18 MR. ROGERS: How many employees do you have at this plant?

19 THE WITNESS: It is an unmanned facility. We have three employees,
20 getting ready to add a fourth one, in that area. And they float between the
21 Castleberry plant, Neurob plant, Wild Fork and Atmore. And the operator
22 normally spends a couple hours a day at each plant.

23 Q. These employees live in the area; is that correct?

24 A. They do.

25 Q. American Midstream, they did not have employees in the area; is

1 that correct?

2 A. That is my understanding that they did not, that was one of the
3 reasons they were interested in selling those properties.

4 Q. Okay.

5 MR. ROGERS: Does this plant process any hydrogen sulfide?

6 THE WITNESS: The Wild Fork plant does not.

7 MR. ROGERS: Okay. That is it. Mr. Gregory, you have any
8 questions?

9 All right. What else Mr. Tyra?

10 MR. TYRA: That is all we have for this matter. We will stay
11 seated to address the next matter which is the Atmore plant as well.

12 MR. ROGERS: All right. The staff will review -- I assume you
13 want this to be an exhibit?

14 MR. TYRA: Yes. That is just a general statement of operations
15 and information statement, so, yes, if you would admit that, we would appreciate
16 it.

17 MR. ROGERS: Why don't you have your witness sign it and we will
18 admit it into the record as Exhibit A on Item 1.

19 Item 2, Docket No. 4-1-14-06, petition by Gas Processors
20 Incorporated.

21 MR. TYRA: This again is a request by Gas Processors, Inc. to have
22 approval for them to take over operations of the well. This is the Atmore -- not
23 a well, I am sorry, a plant. This is the Atmore plant. It is located in Section
24 2, Township 2 North, Range 6 East. And this plant is in Escambia County. I have
25 the same witness who I will remind is still under oath.

1 MR. ROGERS: Reminder he remains under oath.

2 MR. TYRA: All right, sir. And the general manners that we
3 discussed with the last docket will be applicable to this one as well, as far as
4 his experience and things of that nature. So I will get right straight to the
5 questions concerning the Atmore plant.

6 BY MR. TYRA:

7 Q. Again, we indicated that it is located in Section 2, Township 2
8 North, Range 6 East. It is actually on State owned land; is that correct?

9 A. That is correct.

10 Q. And specifically it is on the lands of the Department of
11 Corrections. You are in a prison there, aren't you?

12 A. That is correct.

13 Q. All right, sir. Do you have a ground lease, is that correct, with
14 the Department of Corrections?

15 A. We do.

16 Q. From whom did you purchase this plant?

17 A. American Midstream.

18 Q. So both plants were operated by American Midstream before; is that
19 correct?

20 A. That is correct.

21 Q. So now this plant is going to serve four wells; is that correct?

22 A. That is correct.

23 Q. They are all venture wells in that area; is that correct?

24 A. That is correct.

25 Q. They are all within two miles of the plant; is that correct?

1 A. That is correct.

2 Q. All right, sir. Just for the record, Mr. Rogers, those four wells
3 are the Fountain Farm 2-4 Number 1 well, which is permit number 16050, the
4 Fountain Farm 2-2 Number 1 well, permit number 16186, the Mason 36-14 Number 1
5 well, permit number 10 -- I am sorry, 16048, and the Blackstone 1-12 Number 1
6 well, permit number 16710; is that correct?

7 A. That is correct.

8 Q. All right, sir. What do you do with the gas that you are receiving
9 from these four wells to make it marketable?

10 A. That gas does contain H₂S, about a thousand parts per million is
11 the comedial stream H₂S content. It also has about five percent CO₂, as well as
12 high water vapor content and high NGO content. So we treat the gas to remove
13 the H₂S and CO₂. That stream goes to an incinerator, flare stack. It destroys
14 the H₂S. And then we dehydrate it and we recover the NGO products. The NGO
15 products are trucked away and the gas is dry clean gas, it is sold to South
16 Alabama Gas District.

17 Q. Same as with the other well, Wild Fork; is that correct?

18 A. That's right.

19 Q. Tell me about your experience dealing with H₂S. Does Gas
20 Processors, Inc. have any experience in other wells or other plants dealing with
21 that?

22 A. We did. When we started up the Castleberry plant, when it first
23 came on line it had about 1800 parts per million H₂S. That -- the H₂S content
24 there has declined. As more drilling was done in the area, the newer wells
25 didn't have high H₂S content so it diluted it down but for the first couple of

1 years we were well above the thousand PPM that we are handling now at Atmore.

2 So, you know, we dealt with that for right at ten years now at Castleberry.

3 Q. All right, sir. If our petition is granted, are you willing to

4 assume the responsibilities of operator of the Atmore plant?

5 A. Yes.

6 Q. And are you prepared to comply with all Board orders concerning

7 the operation of that plant?

8 A. I am.

9 Q. Are you prepared to take all actions necessary as operator of that

10 plant to ensure that it is continued in a safe operational manner?

11 A. Yes.

12 Q. Is Gas Processors qualified to operate that gas, again, going back

13 to the H₂S, in a safe and prudent manner?

14 A. We are.

15 Q. All right, sir. And you are experienced in processing gas

16 containing hydrogen sulfide; is that correct?

17 A. That is correct.

18 Q. All right. In the event that plant is closed down, what would be

19 your plans for operations there?

20 A. Same scenario, we would salvage the equipment and restore the site

21 to its near as possible original condition.

22 Q. All right, sir. That ground release you have with the Department

23 of Corrections approved by the governor has specific information concerning your

24 obligation to keep the premises up; is that correct?

25 A. It does.

1 Q. All right, sir. Would, in your opinion, the granting of this
2 petition prevent waste?

3 A. It does.

4 MR. TYRA: All right, sir. I would tender the witness at this
5 time.

6 MR. ROGERS: Is this plant manned, sir?

7 THE WITNESS: It is not manned. It is also an unmanned facility.
8 It is -- it has H2S monitors and a safety system much like a well sight does
9 that -- to shut the plant down if there is a release of H2S.

10 MR. ROGERS: And you submitted that when these plants are no longer
11 useful that they will be dismantled and you will restore the site; is that
12 correct?

13 THE WITNESS: Yes, sir. That is correct.

14 MR. ROGERS: Let's go through this, we would like this in the
15 proposed order, Mr. Tyra. If you would name the wells and each of these plants,
16 the wells that produce into these plants.

17 MR. TYRA: Yes, sir.

18 MR. ROGERS: I assume this is right, sir, that you stated that the
19 gas going into these plants is not marketable in federal law, it is not ready to
20 be sold; is that correct?

21 THE WITNESS: That is correct.

22 MR. ROGERS: It is not ready to be sold and not marketable until
23 you process it; is that right?

24 THE WITNESS: That is correct.

25 MR. ROGERS: Okay. This exhibit --

1 MR. TYRA: I just handed up the signed exhibit, which is the same
2 exhibit, but it applies to both.

3 MR. ROGERS: We will have a separate exhibit in each one. That
4 will be Exhibit A to this Item.

5 MR. TYRA: Thank you.

6 MR. MCQUILLAN: Could you estimate an abandonment cost like you
7 did at the previous plant?

8 THE WITNESS: I would say around \$25,000 for it as well.

9 MR. MCQUILLAN: Okay. And also what would you say is the capacity
10 for this plant or maybe another question, are you running full capacity? Could
11 you address that capacity issue, please?

12 THE WITNESS: The design capacity for that plant is about 2
13 million standard cubic feet a day. It is running less than a million now,
14 probably averaging around 800 MCL, 800 thousand standard cubic feet per day.

15 MR. MCQUILLAN: Okay. Thank you.

16 MR. ROGERS: Anything else, Mr. Tyra?

17 MR. TYRA: No, sir, Mr. Rogers.

18 MR. ROGERS: We will review the evidence and make a recommendation
19 on that matter.

20 MR. TYRA: Thank you so much.

21 MR. ROGERS: We appreciate your discussions the other day when we
22 went through the regulations and determined whether it was part of the gathering
23 line under our jurisdiction. We determined it is clearly under our jurisdiction
24 for both the plants.

25 MR. TYRA: Yes, sir.

1 MR. ROGERS: All right. The next Item then will be Item 13, Docket
2 No. 8-5-14-01, petition by South Carlton Operating Company, LLC.

3 MR. NIX: For the record, my name is Jim Nix. I represent South
4 Carlton Operating Company, LLC. Petition in this matter. Mr. Rogers, I have one
5 witness. I would like to have him sworn in.

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

7 THE WITNESS: Michael Rinehart, 110 Mansfield Drive, Natchez
8 Mississippi.

9 MICHAEL RINEHART,

10 Being first duly sworn,

11 Was examined and testified as follows:

12 MR. ROGERS: Speak into the microphone, Mr. Rinehart.

13 EXAMINATION

14 BY MR. NIX:

15 Q. Mr. Rogers, Staff, this petition relates to extension of inactive,
16 temporary abandoned status and shut in status of several wells in South Carlton
17 Field. I have prepared Exhibit booklets that contain the Exhibits which we have
18 already filed copies of -- we have already filed with the Board and I would like
19 to pass these out if I may.

20 Mr. Rinehart, are you familiar with the petition that has been
21 filed in this docket?

22 A. I am.

23 Q. Have you previously testified before this Board?

24 A. I have.

25 Q. Briefly explain why the existing well pores are important that are

1 at South Carlton Field that are currently temporarily abandoned.

2 MR. ROGERS: I will represent him as an expert. Go ahead.

3 Q. I will direct your attention to the Exhibit booklet, which I just
4 passed out. There are 17 Exhibits in this booklet. They are numbered A1 through
5 16. Are you familiar with these Exhibits?

6 A. I am.

7 Q. Did you prepare these Exhibits?

8 A. I did.

9 Q. Is the information shown on there accurate and true to the best of
10 your knowledge, information and belief?

11 A. Yes.

12 Q. I will direct your attention to Exhibit A1, which is about the mid
13 part of the Exhibit booklet. Would you please explain what is shown on this
14 Exhibit?

15 A. Exhibit is a well status chart that enumerates the number of field
16 wells which total 68 by class. There are 45 producers, nine water injection, ten
17 shut in and 4 temporarily abandoned. And it also denotes that we anticipate to
18 have a drilling program for three wells in 2014.

19 Q. Mr. Rinehart, I direct your attention to Exhibit Number 1, would
20 you please explain what is shown on this Exhibit?

21 A. It lists the 14 field wells that are either temporarily abandoned
22 or shut in, along with their remarks as to our current plans for each well.

23 Q. These are the wells that are subject to this petition, are they
24 not?

25 A. That is correct.

1 Q. I will refer you to Exhibit Number 2. Would you please discuss
2 this Exhibit and what is shown therein?

3 A. This Exhibit depicts our current operations plan for the
4 temporarily abandoned shut in wells for the remaining year of 2014 and then for
5 2015, along with our anticipated drilling plan.

6 Q. Would you address the Williams 10-12 Number 2 well that is listed
7 in the second page of this Exhibit?

8 A. This particular well is a shut in well and we are currently
9 conducting operations to restore that well for production.

10 Q. So this first -- the second page of the Exhibit, it relates to the
11 work over plans for 2014. Next page of Exhibit relates to the drilling plans
12 you have for new wells in 2014. Page after that relates to the work over plan
13 for 2015. And the final page of that exhibit relates to your drilling plan for
14 2015; is that correct?

15 A. That's correct.

16 Q. Are these plans subject to change?

17 A. Yes, they are.

18 Q. Would you explain to the Board why sometimes the plans do not come
19 off as we have set them out here?

20 A. The South Carlton field is in low lying river bottom area. It is
21 very susceptible to inclement weather, seasonal flooding. And that certainly
22 has an impact on the amount of work we can accomplish in a given year. We lay
23 out plans and sometimes we have to revise those, depending upon our
24 accessibility of the field. The year 2013, we had flooding for over 85 days in
25 the field.

1 Q. Let's move onto Exhibits 3 through 16. Would you please briefly
2 explain what these are and what they show?

3 A. Exhibits 3 through 16 depict the specific information on our
4 current temporarily abandoned shut in wells. And along with that, the well bore
5 schematics that accompany the questionnaire.

6 MR. ROGERS: Speak a little louder, Mr. Rinehart, please. Thank
7 you.

8 A. Yes, sir. Again those are individual Exhibits. If I can group
9 those without being laborious and going through each individual Exhibit, it --
10 those Exhibits include our current plans for each well for 2014, 15, along with
11 the specific engineering data for each well boring.

12 MR. ROGERS: All right.

13 Q. Mr. Rinehart, to the best of your knowledge, information and
14 belief, are each of the wells which are subject to this petition in a safe
15 condition and in compliance with the rules and regulations of this Board?

16 A. Yes, sir.

17 Q. To the best of your knowledge, information and belief, do these
18 wells pose any hazard to the environment in their current status?

19 A. No, sir.

20 Q. To the best of your knowledge, information and belief, are the
21 leases covering the unit of these wells in force and effect?

22 A. That's correct.

23 Q. Does South Carlton Operating Company, LLC have a plugging bond on
24 file with the Board to ensure the proper plugging of these wells?

25 A. We do.

1 Q. In your opinion, would the granting of the relief and request for
2 the petition filed in this docket prevent waste by the Code of Alabama 1975 and
3 the rules and regulation of this Board?

4 A. It will.

5 Q. In your opinion, would the granting of said relief ultimately
6 result in the recovery of more oil and the hydrocarbon reserves from the South
7 Carlton Field?

8 A. It will.

9 MR. NIX: Mr. Rogers, I would like to request that the Exhibits
10 that we have provided to the Board be admitted as part of this record.

11 MR. ROGERS: State the numbers that you have.

12 MR. NIX: Exhibit A1 and Exhibits 1 through 16.

13 MR. ROGERS: Exhibits A1 and 1 through 16 are at admitted into the
14 record.

15 MR. NIX: Thank you. I tender to this witness for public questions
16 by the Staff.

17 MR. ROGERS: We also have an affidavit by Mr. Rinehart. So we will
18 admit that and call that Exhibit A.

19 Any questions from the Staff?

20 Staff has no questions.

21 MR. NIX: Mr. Rogers, I failed to note that I have filed an
22 affidavit of notice with the Board also. Thank you.

23 MR. ROGERS: Just a second, we will get that.

24 Y'all have been very successful and done a good job operating
25 these wells. Good luck in the future.

1 Do you have a copy of it, Mr. Nix?

2 MR. NIX: It is in the Exhibit booklet.

3 MR. ROGERS: Show us where it is and we will just admit it.

4 MR. NIX: It is right in the middle.

5 MR. ROGERS: Okay. We admitted the affidavit of testimony as
6 Exhibit A., that was Mr. Rinehart's. And we admitted the affidavit of notice as
7 Exhibit B., that is admitted. The Staff will review the evidence and make a
8 recommendation to the Board.

9 MR. NIX: Thank you, Mr. Rogers.

10 MR. ROGERS: Next Item then is Land and Natural Resources
11 Development, Incorporated, Item 14, Docket No. 8-5-14-02, wish to establish
12 Magby Creek field in related to --

13 MR. WATSON: Mr. Rogers, Tom Watson for Land and Natural
14 Resources. Let's consolidate Items 14, 15 and 16 for hearing purposes, please.

15 MR. ROGERS: That request is granted. That is petition to
16 reclamation of the Brown 23-11 is Item 15. And Item 16 is force pooling without
17 risk compensation all tracts and interests in hydrocarbons.

18 MR. WATSON: I have two witnesses and I would like to have them
19 sworn in, please, sir.

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

21 MR. SANDERS: RG Jerry Sanders, Tuscaloosa, Alabama.

22 MR. KENNEDY: Foster Kennedy, Aberdeen, Mississippi.

23 RG JERRY SANDERS & FOSTER KENNEDY,

24 Being first duly sworn, was examined and testified as follows:

25 MR. WATSON: Mr. Rogers, I have pre filed affidavits of notice in

1 these consolidated Items and I would like to have those affidavits of notice
2 admitted into the record, please.

3 MR. ROGERS: We have affidavit of notice relating to Docket No.
4 8-5-14-04, 8-5-14-03 and 8-5-14-02. So those will be admitted and we will label
5 those -- we will just label them for each docket. So 1 on 8-5-14-02 -- if you
6 have a copy -- sir, would you like to identify yourself? And I understand that
7 you may be here in connection with this Item. Come on up here so we can get this
8 recorded. Glad to have you with us. What was your name?

9 MR. NEAL: Thank you, sir. My name is David Neal, David Earl Neal
10 and I am from Pickens County. Address 1985 County Road 34. And I received a
11 letter from an attorney and I was curious at what is going on, why did I get
12 this letter? I am not familiar with it, to be honest with you. I wanted to
13 know what was going on.

14 MR. ROGERS: Glad to have you. I will summarize and Mr. Watson may
15 want to add something. This company has petitioned the Board to recognize or
16 establish a field. And they discovered gas in this case, natural gas. And they
17 are asking to establish a unit. And that means if you are in the unit then you
18 will share in any production from this. And they are also asking that they have
19 what we call force pooling. They will have to force pool parties that didn't
20 sign a lease and never consented. So maybe Mr. Watson can tell what the
21 gentleman's interest is, if you know. Is he in the unit, for example?

22 MR. WATSON: If you will give us just a minute we will look and
23 see.

24 MR. NEAL: David Neal. You from Meridian, right?

25 MR. KENNEDY: No, sir. Aberdeen, Mississippi.

1 MR. ROGERS: Who sent you a letter, sir?

2 MR. NEAL: Him, I believe, I don't have the -- he was on my notice
3 list.

4 MR. ROGERS: Do you know why he received it?

5 MR. WATSON: He is in the area. You recall, this is a 320 acre
6 unit. We had to notice the entire area, so he is somewhere in the area.

7 MR. ROGERS: So big question for him would be whether he is going
8 to share in the well; do y'all know that yet?

9 MR. WATSON: We will look while we present this.

10 MR. ROGERS: Why don't you, have a seat, sir, and you are welcome
11 to ask any questions when they get finished. And hopefully they will tell you a
12 little bit more about where your interest is. Mr. Watson, do you have an Exhibit
13 booklet that you can give the gentleman?

14 MR. WATSON: I passed them all out to you guys. If I can have one
15 --

16 MR. ROGERS: They will present technical evidence about the
17 Exhibits and when they get finished, if you want to ask any questions you are
18 welcome to do it.

19 Let's see the affidavits, we will call the affidavit on Item 14
20 Exhibit A, affidavit of notice, we will have a Exhibit A, affidavit of notice on
21 Item 15 and then affidavit of notice on Item 16. They will be admitted as
22 Exhibit A.

23 MR. WATSON: Mr. Rogers, these petitions that we called for
24 hearing this morning asking the Board to reform a 40 acre Wild Cat drilling
25 unit, that is in the Northeast quarter of the Southwest quarter of Section 23,

1 Township 18 South, Range 16 West in Pickens County to a 320 acre unit,
2 production unit, consisting of the South half of Section 23. And we are asking
3 the Board to establish a new field as this is a new discovery of gas pool,
4 actually two gas pools. The Chandler Sand and the Pottsville A Sand, and my
5 witness, Mr. Sanders, will testify about. So those Items we are hearing. Then
6 we will also have a force pooling without the imposition of risk compensation
7 fee at the end of Mr. Sander's testimony.

8 EXAMINATION

9 BY MR. WATSON:

10 Q. Mr. Sanders, you have appeared before this Court and have on file
11 an affidavit of your qualifications as petroleum engineer; is that correct?

12 A. That's correct.

13 Q. In working with your geologist, consulting geologist, David
14 Higginbotham, did you and Mr. Higginbotham prepare the Exhibits that I handed
15 out to Mr. Neal and the Staff?

16 A. Yes, we did.

17 Q. And Mr. Rogers, when I finish this, Mr. Sanders has signed the
18 Exhibits, because he is going to testify to these today, and I will hand that in
19 and ask that that be included into the record of the hearing. And I tender
20 Mr. Sanders as an expert petroleum engineer for giving testimony in this Item.

21 MR. ROGERS: He is so recognized.

22 Q. Mr. Sanders, if you would take your first Exhibit there, please,
23 and tell Mr. Rogers and the staff what is shown on that.

24 A. The Brown 23-11 Number 1 was drilled on a 40 acre Wildcat unit, as
25 shown in red on the Exhibit. And our petition is proposing to expand that unit

1 from a 40 acre unit to a 320 acre. The well was completed and proved to be a gas
2 well.

3 Q. All right, sir. Actually the well was completed in two sands as we
4 will show later; is that correct?

5 A. Yes, that is correct.

6 Q. And gas wells are usually spaced on 320 acre units and that is why
7 we are asking the Board to reform the 40 acre Wildcat unit to the 320 acre unit,
8 correct?

9 A. That is correct.

10 Q. And the well is located in a legal location based on the special
11 field rules we are recommending that be adopted for this new field?

12 A. Yes, they are.

13 Q. All right, sir. Turn to Exhibit Number 2, Mr. Sanders, and tell
14 Mr. Rogers and the staff what is shown there, please, sir.

15 A. It is a structured map contoured on top of the Pottsville A Sand.
16 Shows a Northwest Southeast trending down to North fault and it shows then it is
17 contoured on top of the Pottsville A Sand on 53 contour. Shows the -- contour
18 shows the sand getting high as we moved to the Northwest.

19 Q. All right, sir. Now, the next Exhibit, Exhibit Number 3 is a typed
20 log for the Pottsville A Sand. Let's describe that Pottsville A Sand as we have
21 it in our special field rule, please, sir.

22 A. Pottsville A.?

23 Q. Yes, sir, Pottsville A.

24 A. The Pottsville A shown in Exhibit 2 or Exhibit 3 is that interval
25 existing between 4762 feet, 4762 and 494792, as indicated on the Schlumberger

1 Gamma Ray/Microlog for the Brown 23-11 Number 1, and that is Exhibit 3.

2 Q. All right, sir. Go to Exhibit 4, Mr. Sanders, and tell us what is
3 shown on that Exhibit.

4 A. Exhibit 4 is a net isopach of the sand for the Pottsville A that
5 exists in the Brown 23-11 Number 1. Shows 30 foot sand at the well bore and it
6 is projected to be as shown in the Exhibit.

7 Q. All right, sir. Now let's go to our second Sand encountered in
8 this well and that is the Chandler Sand. How do we define the Chandler Sand in
9 the proposed new Magby Creek Field?

10 A. That is as shown on Exhibit 5 the Chandler Sand exists between the
11 interval of 4535 and 4590, as indicated on the Schlumbere Gamma Ray/Microlog for
12 the Brown 23-11 Number 1.

13 Q. All right, sir. And now describe what is shown on Exhibit 6.

14

15 A. Exhibit 6 is a net isopach, net sand isopach map of the Chandler
16 Sand, as it exists around the Brown 23-11 Number 1. Shows 55 foot net sand at
17 that location and is projected as shown on the Exhibit for the surrounding
18 areas.

19 Q. All right, sir. Now, the next two Exhibits, 7 and 8, are the OGB
20 9s where you tested these two sands. Let's start with your Exhibit Number 7.
21 What was the test on the Chandler Sand, Mr. Sanders?

22 A. The Chandler Sand was tested and the test was taken off on April
23 24th. It is an 8 hour test. April 24, 2014, 8 hour test well flowed at a rate
24 of 975 MCF a day, no liquids, it was tested on 1864 choke.

25 Q. All right, sir. And Exhibit Number 8 where you tested the

1 Pottsville A Sand, what were the test results there?

2 A. The Pottsville A Sand was tested, the test was off on May 9, 2014
3 and was an 8 hour test. The well flowed at a rate of 1 million 92 thousand cubic
4 feet a day and it was flowing over 2264 choke.

5 Q. All right. So clearly, based on the evidence that you just
6 presented, we have two separate distinct sands in this well bore and have we
7 made provisions in our special field rules for the production of those two
8 sands?

9 A. Yes, we have.

10 Q. And what are we proposing there in the special field rules? How
11 do you propose to produce these two sands in this well, Mr. Sanders?

12 A. They will be produced -- the well will be produced as a dual with
13 the Chandler Sand producing through the casing annular and the Pottsville A Sand
14 producing through the tubing.

15 Q. With the exception of this dual completion of these two sands, are
16 the special field rules that we are recommending the Board adopt for the Magby
17 Creek field similar to and really identical to the special field rules for gas
18 wells in the Black Warrior Basin?

19 A. Yes. It is.

20 Q. And you have -- your company is operated other wells in the black
21 Warrior Basin, are these special field rules that we are recommending, would
22 they provide for orderly development of these two gas sands encountered in this
23 well?

24 A. They will.

25 Q. Will they provide for the orderly development of the proposed new

1 Magby Creek field?

2 A. Yes.

3 Q. And in fact, we are going to propose or your company is going to
4 propose an offset well to the North of this 320 acre unit, are you not?

5 A. That's correct.

6 Q. In fact, on the docket today we are force pooling to allow us to
7 permit a new well offsetting this to the North in the North half of Section 23,
8 correct?

9 A. That is correct.

10 Q. All right. And included in the special field rules are provisions
11 for establishing allowables and operating this field, measuring production, all
12 of those being standard provisions that are included in special field rules for
13 gas wells in the Black Warrior Basin; is that correct?

14 A. Yes, sir. That is correct.

15 Q. All right. Now Mr. Rogers, let me move to the petition on force
16 pooling tracts and interest on this 320 acre gas unit. And for that I ask
17 Mr. Foster Kennedy, have you appeared before this Board and have on file an
18 affidavit of your qualifications as petroleum land man?

19 A. I do.

20 Q. And have you reviewed the ownership information in the South half
21 of Section 23 for this Magby -- new Magby field?

22 A. I have.

23 Q. All right. And does Land and Natural Resources have a hundred
24 percent ownership and control of all the interest in the South half of Section
25 23?

1 A. They do not, but they have got control of over 99 percent.

2 Q. All right, sir. Tell us how you and your colleagues, your land
3 men, determine the ownership in the South half of Section 23, please, sir.

4 A. We checked the public records of Pickens County and then we had to
5 conduct some introduce as far as determining success heirship. Part of that
6 process was trying to determine the successors of the Neal family. It would be
7 Jack and Velma Neal. Mr. David Neal, I reviewed our plat, is a leased owner and
8 he will be a part of the well in the South half of Section 23.

9 MR. ROGERS: Do you know how many acres?

10 THE WITNESS: He is one of 32 owners in a 2 and a half acre tract.
11 Excuse me, one of 32 owners of a five acre tract. His family has a 1 half
12 interest of the five acres.

13 MR. WATSON: Mr. Rogers, I have handed up an affidavit of
14 testimony from Mr. Kennedy and also I have handed up to you a letter on
15 Southwest Energy stationary addressed to you dated July 25.

16 MR. ROGERS: Do you have a copy you can give of these affidavit
17 Exhibits to Mr. Neal?

18 MR. WATSON: I gave you multiple copies. If you will give me one
19 back of each, please. Thank you. Mr. Neal, this is what I just handed up to
20 them.

21 MR. WATSON: Mr. Rogers, let me have Mr. Kennedy tell you basically
22 or summarize, what is in the affidavit of testimony and the letter that he wrote
23 to you relative to Roy Douglas Randolph.

24 MR. ROGERS: Is that somebody that was unlocated?

25 MR. WATSON: That is an unlocated party. And we are going to

1 testify now as to the efforts to try to locate this party.

2 Q. Mr. Kennedy, if you tell us the efforts that you went to to try to
3 locate this unlocated party.

4 A. In the course of establishing the heirship of Jack and Velma Neal,
5 one of the owners was Rosell Neal, one of nine children of Jack and Velma. He
6 passed away in Colorado or actually in the Denver area. We, I will say,
7 established some contacts, made some determination of heirship, but eventually
8 hired a petroleum land man out of Colorado Springs to research the records in
9 the Denver area. We determined that Mr. Rosell Neal passed away. He had three
10 children, two of which have leased to us, the other died with seven children.

11 MR. ROGERS: What was his name again?

12 THE WITNESS: Rosell Neal, he should be -- he is not listed in our
13 petition, but he is one of the heirs of Velma Neal. She had nine children. Her
14 estate was left equally between the nine. We have secured leases from all but a
15 couple of parts of this heirship. Rosell Neal had, again, three children. We
16 have got leases from two, Bulla Marie Neal passed away with seven children. And
17 we got -- we had located through our land man in Colorado and cross referencing
18 some records in the Denver area, a contact, and determined that a Demetria Ward
19 was a child of Bulla Neal. He established contact with her, she inturn admitted
20 that she was the daughter of Bulla Neal, and then further provided the names of
21 her siblings. We tried to secure a lease from her, she said she would not give
22 out their information. She would discuss it with them and would get back to us,
23 but she was going to provide us names and addresses. She, I will say, became
24 distant. We were unable to contact her regularly. She did finally, you know,
25 talk to us. She would not provide us the additional names and addresses.

1 MR. ROGERS: Who is that you are speaking of, sir?

2 THE WITNESS: Demetria Ward, she is a child of Bulla Neal. Through
3 additional efforts, you know, we established some addresses. We located one of
4 Demetria's siblings, which was a Shavonne Neal. And Shavonne provided some
5 names and addresses. We found some others, you know, through Internet research
6 and other interviews. The only one we were not able to, I will say, locate an
7 address for was Roy Douglas Randolph. And initially we received conflicting
8 information from Demetria Ward stating that she wasn't really sure that he was a
9 sibling of hers. And but then in talking with Demetria's sister, Shavonne Neal,
10 she unequivocally said Roy was a blood brother of theirs. He is the one that,
11 you know, nobody has provided any information on, Demetria said it has been
12 several years since she heard anything from him. They had another sister, Shante
13 Neal that Shavonne said might have some information on him and she would contact
14 her. We have received nothing further on Roy Douglas Neal, other than we have,
15 in my mind, confirmed that he is an heir of Bulla Marie Neal.

16 Q. And you have addressed all of the title information that brings
17 you down to Roy Douglas Neal in that letter that I just described that you or
18 Southwest Royalties sent to Mr. Rogers; is that correct?

19 A. That's correct.

20 Q. You indicated in your testimony that Land and Natural has well
21 over majority. According to our petition, we have outstanding 0.1543244 net
22 mineral acres or approximately .048226375 percent outstanding; is that correct?

23 A. That is correct.

24 MR. ROGERS: Wait a second. I think you said .015 it says .154.

25 Q. I am sorry. It is .15. And in our affidavit of notice, we have

1 listed these parties that you have just described and the interest that they
2 have in this unit; is that correct?

3 A. That is correct.

4 Q. So is it your testimony to Mr. Rogers that you have made a
5 diligent effort to secure leases and to determine ownership and to contact the
6 owners that the company does not have leases from?

7 A. We have.

8 Q. And the only party in this group that you have identified that you
9 could not locate is Roy Douglas Randolph, correct?

10 A. That is correct.

11 Q. So is it your testimony, Mr. Kennedy, that the granting the
12 petition force pooling without the imposition of risk compensation fee, these
13 tracts and interest that we just described, will that promote orderly
14 development, prevent waste and protect the correlative rights of all these
15 parties?

16 A. It will.

17 Q. Mr. Sanders, in your testimony on your Exhibits that we handed up
18 and I am going to hand up the Exhibits that you signed as you testified through
19 today, Exhibits 1 through 8, would the granting of this petition approving the
20 new field that we just asked for here, the Magby Creek Field, the reformation of
21 the 40 acre wildcat drilling unit to a 320 unit gas unit consisting in the South
22 half of Section 23, promote orderly development, prevent waste and protect
23 correlative rights?

24 A. It will.

25 MR. ROGERS: All right. The technical Exhibits, we are going to

1 stamp a copy in. This is Exhibits 1 through 8 are admitted to relate to all
2 three. We have already admitted the affidavits of notice A, B and C, they are
3 all called A for each separate Item. And we admit this exhibit from Southwest
4 Energy, Inc. as item B to Item 16. We admit the affidavit testimony as Exhibit C
5 to Item 16.

6 MR. WATSON: And I tender my witnesses to you and members of the
7 Staff and to Mr. Neal if he has any questions.

8 MR. ROGERS: Questions of the Exhibits? Technical Exhibits?

9 So summarizing that, you only had one gentleman that you couldn't
10 locate?

11 THE WITNESS: That is correct.

12 MR. ROGERS: And naturally the question we would have of you here,
13 Mr. Neal, do you know him, Roy Douglas Randolph? He would be his cousin,
14 wouldn't he?

15 MR. KENNEDY: Somewhere down the line.

16 MR. NEAL: No, sir, unfortunately I don't. And as far as Rosell
17 Neal, his sibling, I don't know anything about them. I didn't know I even had
18 them.

19 MR. ROGERS: You got new cousins.

20 MR. NEAL: Yes, sir, and these cousins are new to me. And I am the
21 oldest grand kid in the family.

22 MR. ROGERS: I had to ask you in case you might know this
23 gentleman.

24 MR. NEAL: No, sir.

25 MR. ROGERS: If you have any questions you are welcome to ask

1 them. Mr. Kennedy just told us that you have the fortunate of having an interest
2 in this unit. So that means -- did he sign a oil and gas lease?

3 MR. KENNEDY: Yes, sir.

4 MR. ROGERS: Are you familiar with that?

5 MR. NEAL: Yes, sir, I am.

6 MR. ROGERS: That means you get a royalty interest as soon as they
7 pay the money out, you are due at least within no later than 6 months with the
8 first production. With that in mind, do you have any questions?

9 MR. NEAL: Just one, I guess I am curious about Randolph. What
10 happens, you haven't got located with him, what happens with his portion or
11 whatever, if he getting any?

12 MR. WATSON: Let me try to answer that and then I will let
13 Mr. Kennedy answer that. That interest will be set aside that he is entitled to,
14 he will have seven years to come forward and claim that interest. After which
15 time the State of Alabama will claim that interest as an unlocated party.

16 MR. ROGERS: You will submit it to them, Tom. Don't say they will
17 claim the money. You will submit into the State.

18 MR. WATSON: They will come around and audit to see if all these
19 parties have been paid and they will make a claim for it. That is what happens
20 to it.

21 MR. NEAL: His interest?

22 MR. ROGERS: If you can find him, that would be great, because he
23 is entitled to some money.

24 MR. NEAL: Yes, I am going try to locate all of them.

25 MR. ROGERS: If you find him, let me know and we will be sure he

1 gets some money.

2 MR. NEAL: Yes, sir, I will be glad to.

3 MR. ROGERS: Any other questions?

4 MR. NEAL: No, sir, at this point I am on track with what is going
5 on.

6 MR. WATSON: That is all we have.

7 MR. ROGERS: The Staff will review the evidence and make a
8 recommendation to the Board.

9 The next Item is another Land Item, Item 17 Docket No. 8-5-14-05.

10 MR. WATSON: Yes, Mr. Rogers. I have pre filed an affidavit of
11 notice and ask that that affidavit of notice be admitted into the record.

12 MR. ROGERS: Affidavit of notice is admitted as Exhibit A.

13 MR. WATSON: This is request for Land and Natural Resources asking
14 the Board to enter an order force pooling without the imposition of the risk
15 compensation fee, tracts and interest, and hydrocarbons produced from the
16 proposed Neal 23-5 Number 1 well to be drilled on a 320 acre Wildcat drilling
17 unit consisting of the North half of Section 23, Township 18 South, Range 16
18 West, Pickens County, Alabama.

19 I have an affidavit of testimony in support of this force
20 pooling. Of course I have Mr. Kennedy here today to testify, but let me hand up
21 this affidavit of testimony which has been pre filed.

22 Q. Now Mr. Kennedy, you are familiar with the ownership in this 320
23 acre unit which is actually the offset to the North of the Magby Creek Field
24 that we just set up, are you?

25 A. I am.

1 Q. And have you -- tell Mr. Rogers how you have gone about, you and
2 your colleagues have gone about to determine the ownership in this interest, if
3 in fact Land and Natural does not have, in fact, a hundred percent ownership and
4 they do not, do they?

5 A. They do not. They have got over 99 percent under lease.

6 Q. All right, sir. How did you go about determining those unleased
7 owners?

8 A. Just the review of public records of Pickens County and we have
9 only got one unleased owner.

10 Q. And that one unleased owner was located and you have had contact
11 with that owner and you have offered that owner as good or better terms than was
12 offered to others who elected to lease?

13 A. We have. And we have seen him on numerous occasions and, you
14 know, he is -- well, he has had several responses. One, just not worth fooling
15 with, wasn't enough money. He further said that he had a cousin in the NBA that
16 was taking care of him and it wasn't worth fooling with.

17 Q. What is this persons name and what interest does he own?

18 A. It is AC Brownlee and his wife, Vivian Brownlee. They own .81
19 acres in a 320 acre North half unit.

20 Q. So .81 net mineral acres is approximately 0.253125 percent of the
21 320 acre unit, correct?

22 A. That is correct.

23 Q. And is it your testimony that clearly Mr. Brownlee and his wife
24 had an opportunity to lease on as good or better terms than those who elected to
25 lease and they chose not to?

1 A. That is correct and on more than one occasion.

2 Q. So you have had good faith negotiations with Mr. Brownlee,
3 correct?

4 A. Yes, sir.

5 Q. In your opinion?

6 A. That is correct.

7 Q. And once he told you that his relative was in the NBA and would
8 take care of him and he is not interested in your money, at that point in time I
9 guess you stopped trying to get him to sign a lease?

10 A. That is correct.

11 Q. All right. And Land and Natural Resources is prepared once the
12 Board force pools without the imposition of risk compensation fee this
13 outstanding unleased interest, then the well will be drilled to the North of the
14 discovery well that we just discovered -- just discussed; is that correct?

15 A. That's correct.

16 Q. Would the granting of this petition, in your opinion, Mr. Kennedy,
17 prevent waste, protect correlative rights and avoid the drilling of unnecessary
18 wells?

19 A. It would.

20 MR. WATSON: I tender Mr. Kennedy to you of any questions you have
21 of this Item, Mr. Rogers and the Staff.

22 MR. ROGERS: The affidavit of notice is admitted as Exhibit A and
23 the affidavit of testimony is admitted Exhibit B. My only question is it is
24 actually two owners, do they have joint tenant right of survivorship?

25 MR. KENNEDY: I think it is.

1 MR. WATSON: I didn't remind Mr. Kennedy or you, Mr. Rogers, that
2 he is an expert witness. I assume you will assume that he is the expert witness
3 giving testimony in this Item?

4 MR. ROGERS: We will. That is the only question I have. Anything
5 else?

6 MR. WATSON: That is all we have.

7 MR. ROGERS: Staff will review the evidence and make a
8 recommendation to the Board.

9 MR. WATSON: Thank you.

10 MR. ROGERS: the next Item is Item 26, Docket No. 8-5-14-14,
11 petition by Round Tree and Associates, Incorporated.

12 I will note that 25, we continued that because that would be
13 approved if the well turns out to be successful and the --

14 MR. WATSON: Might I address that, Mr. Rogers, before we move on
15 with this testimony. That is absolutely correct. And once this well is drilled
16 and the results of the drilling is filed, I will have my witnesses who testified
17 today prepare an affidavit of testimony to that regard with the petition and we
18 would come back and ask that that Item be heard at that time, if that is
19 permissible.

20 I have two witnesses in this case, Mr. Kennedy is already under
21 oath, but I need you to swear in my geological witness, please.

22 MR. ROGERS: State your name and address.

23 THE WITNESS: David Hancock, 120 Little Creek Road, Ridgeland,
24 Mississippi.

25 DAVID HANCOCK,

1 Being first duly sworn, was examined and testified as follows:

2 MR. ROGERS: Why don't you give a brief history, Mr. Watson. There
3 was a field already here.

4 MR. WATSON: Yes, sir, I am going to. Let's admit first into the
5 record the affidavits of notice and revised affidavit of notice in this Item.

6 MR. ROGERS: Just a minute. Item 26, we have affidavit of notice
7 and the revised affidavit of notice.

8 MR. WATSON: Yes, sir.

9 MR. ROGERS: We will label the affidavit of notice, A and revised
10 affidavit of notice, Exhibit B.

11 EXAMINATION

12 BY MR. WATSON:

13 Q. All right, sir. Okay. Round Tree and Associates is proposing to
14 form a 640 acre drilling unit consisting of the South half of Section 35,
15 Township 3 North, Range 7 East and the North half of Section 2, township 2
16 North, Range 7 East in Escambia County, Alabama. There has been a well drilled
17 in the North half of Section 2, the Kelly 2-2, that my witness will describe in
18 more detail. That well ceased to produce after three years. We are proposing to
19 drill a West of offset to that Kelly 2-2 well. Early on, I think in 1988,
20 McGuire drilled a well in the South half -- actually the North half of the South
21 half of Section 35, the McGuire Attic 35-11, this was a dry hole. We also will
22 cover that in our testimony on these Exhibits today. The summary here is that
23 Round Tree and Associates believes that there is gas that was not produced
24 through the Kelly 2-2 well, you will see that in the Exhibits that my witnesses
25 are going to present today. And we are proposing to drill a well to capture

1 those hydrocarbons that would not otherwise be produced.

2 Okay. My geological witness is David Hancock. David has appeared
3 before you and has on file an affidavit of qualifications as a petroleum
4 geologist.

5 Mr. Hancock, are you familiar with the petitions that have been
6 called for hearing today?

7 A. Yes.

8 Q. Have you prepared Exhibits in support of these hearing -- this
9 hearing?

10 A. I have.

11 MR. WATSON: I tender David Hancock as an expert petroleum
12 geologist for giving testimony in this Item, Mr. Rogers.

13 MR. ROGERS: He is so recognized.

14 Q. David, if you would please turn in the booklet of Exhibits that I
15 have handed to Mr. Rogers and the Staff to your first Exhibit and tell us what
16 is shown on that Exhibit.

17 A. This is a location plat for the Round Tree and Associates Kelly
18 2-4 Number 1. The unit proposal is to consist of the South half of Section 35, 3
19 North 7 East, and the North half of Section 2 of 2 North 7 East. There are two
20 other wells within the unit boundary. One is the Old Anadarko Kelly 2-2 that
21 ceased to producing. And another one is the Maguire Attic 35-11 to the North.

22 Q. All right, sir. Now shown on this Exhibit, your location of the
23 Kelly 2-4 in 640 acre spacing, this would be an exception location, would it
24 not, to the West line?

25 A. Yes, by like 70 feet.

1 Q. All right, but we are asking the Board, in addition to approving
2 this 640 acre drilling unit, we are also asking the Board to approve the
3 exceptional location of the Kelly 2-4, correct?

4 A. Yes, sir.

5 Q. All right, sir. Turn to your next Exhibit, Exhibit Number 2. Now
6 this exhibit shows the area South half of 35 that we were proposing to put in
7 the field, but that Item has been continued until the well is drilled and
8 approved to be productive, at which point in time we would add that to the field
9 limits, is that your understanding?

10 A. Yes.

11 Q. All right, sir. All right, let's go to the substantive Exhibit,
12 which is your Exhibit Number 3. Mr. Hancock, tell Mr. Rogers and Staff what is
13 shown there, please, sir?

14 A. This is a geologic structure map at the top of the Smackover
15 formation. It explains our reasoning behind the North half, South half unit that
16 we are proposing. If you will notice the green area is the area that we consider
17 productive and it does cover the North half of two and goes into the South half
18 of Section 35. The entirety of the green area is encompassed within our unit
19 boundaries. The map that you see here is based on a 3-D seismic survey that was
20 accessed through Black Stone Minerals, which had the rights to the 3-D that was
21 shot through here, and have a significant acreage position within our unit area.
22 If you will notice the proposed location, the Kelly 2-4, there is a slight
23 structural improvement that we feel like we can make by moving to the West. Also
24 if you will notice, and I will go into a little more detail, the absolute crest
25 of the structure is just a little bit South of our location, but due to some

1 location issues, which we will talk about, we were unable to put it right there
2 on the top, so we had to move it back to the North a little bit.

3 Again, you will see there is the Anadarko Kelly 2-2. The old
4 producing well, the Maguire Attic 1-3 and the Maguire Attic 35-11, that are
5 within the scope of the structure map here. That pretty much --

6 Q. Let me kind of embellish a little bit the history, if I could.
7 This Kelly 2-2, you correct me if I am wrong, 2-2 was drilled by -- was drilled
8 in 1988, I think, and the well did not produce until 1998; is that right?

9 A. That is correct.

10 Q. Why is that?

11 A. When they drilled the well --

12 Q. Anadarko?

13 A. When Anadarko initially drilled the well in 1988, they tested the
14 well and, again, I have some Exhibits we will look at, but the gas composition
15 was such that it was going to need to be sent to the Flomatin plant. And it
16 took them ten years to get the pipeline in and get negotiated with the owners of
17 the plant to get the gas down, it is a full oil, gas and oil stream down to
18 Flomatin.

19 Q. And then how long did that well produce after they put it online?

20 A. The well produced at a flat rate of about 100 barrels a day and
21 about a million feet of gas a day for three years. At which point the casing
22 collapsed and they were unable to establish communication with the Smackover and
23 ultimately abandoned the well without re drilling it in 2001.

24 Q. All right. Very good. So go to your next Exhibit Number 4, please.

25 A. This next Exhibit is an Isopach of the Smackover porosity. Upper

1 Smackover porosity. If you will note, we have a zero line. We don't see any
2 porosity in either one of the Maguire wells. Also you will notice that the
3 Isopach is shaped much like the producing area that we have colored on the
4 structure map. And we think that the Smackover porosity build up is
5 coincidental with the structure, and that as we move -- again, as we move up dip
6 to the Anadarko Kelly 2-2, we are hoping to actually gain additional porosity
7 within the Smackover. We don't feel like that the Smackover porosity in this
8 area is connected to more regional Smackover porosity, basically that is due to
9 the lack of any water drive and the pressure history on the Anadarko Kelly 2-2.
10 Again, you will notice that the entire Smackover porosity area is within the
11 confines of the 640 acre proposed unit of which goes up into 35.

12 Q. All right, sir. Now, we have a line of cross section here as your
13 next Exhibit.

14 A. Yes. It is just -- if you will look back to your structure map,
15 there is an AA prime that goes from the Maguire Attic 35-11 through our proposed
16 location, through the Anadarko Kelly 2-2, and then to the Maguire Attic 1-3.
17 Again, it is just a simple cross section. It shows, number one, the lack of
18 porosity that you see in the two Maguire wells, the porosity build up in the
19 Anadarko well and the anticipated structural position and build up of porosity
20 in the proposed Round Tree Kelly 2-4 well.

21 Q. All right, sir. Your next two Exhibits.

22 A. Okay.

23 Q. Are logs, just tell us why you include those and what they show,
24 Mr. Hancock.

25 A. This is Exhibit 6 and 7, and some of these next Exhibits are more

1 for informational and historical context of what we are doing here. This first
2 well is -- E-log is of the Anadarko Kelly 2-2. It is the induction log where
3 they perforated. It is shown there on the -- in the log track for 14628 to 42.
4 The next well or the next Exhibit is a log of the density neutron, again showing
5 the perforations in the depth tract of 14628 to 42. You can see the 14 feet of
6 Smackover build up in that well.

7 Q. All right, sir, this next Exhibit appears to be an Aerial map of
8 some sort. This will address your structural location that you referred to in
9 your Geological map. So tell us what is shown here, please, sir.

10 A. Okay. As we mentioned, the location that you see on the seismic or
11 the geologic structure map is a little bit off the absolute crest of the
12 structure. Once we got over and surveyed, we found that the crest of the
13 feature actually fell underneath the -- this power line. It is a power line and
14 that attic pipeline runs down the right of way of this power line. So we had to
15 back off 250 feet so that we could build our location. So we actually will give
16 up a little bit of structure by doing that, but not too much. But this is just
17 a topo -- actually an Aerial photograph of the area showing the pipeline right
18 of way and the -- and the power line there.

19 Q. All right, sir. I believe your next Exhibit is just a map that
20 depicts the same thing shown on the Aerial photograph?

21 A. Right, it just shows where the pipeline goes.

22 Q. All right, sir. And now let's look at your Exhibit 10.

23 A. This is just a form OGB 9 and just shows the test data on the old
24 Anadarko well, 218 barrels a day and 1746 MCF a day.

25 Q. All right, sir.

1 A. Again, just mostly for informational purposes, Exhibit 4 -- I am
2 sorry, 10-A, is -- just shows where they noted to the Board that the casing had
3 collapsed. Again, the well came on or they drilled it and tested it in 1988,
4 came on production in '99, the casing collapsed in 2001. So you had almost
5 exactly three years of production.

6 Q. They say on that Exhibit 10-A there that we are currently
7 evaluating a sidetrack option, but they never sidetracked the well, did they?

8 A. No. I went back and looked at prices in 2001, I think oil prices
9 averaged about 17 or 18 dollars a barrel during that year. It may have been 22,
10 but it was very low so I assumed that they just didn't see it feasibly economic
11 to re drill that well.

12 Q. All right, sir. Look at the Exhibit 10-B there, Mr. Hancock.

13 A. Again, informational purposes, this just is a schematic showing
14 where the casing collapsed relative to the Smackover perforation.

15 Q. All right, sir. Now let's look at your next Exhibit, Exhibit
16 Number 11.

17 A. This is the production decline graph of the Anadarko Well. This is
18 really what kind of made us feel like there were some additional reserves. The
19 well produced for three years but it produced flat. There was very little
20 decline. Over the course of those three years, the well made about 100 barrels
21 of oil a day and about a thousand MCF a day.

22 Q. All right. And now we come to the Exhibit that you mentioned
23 earlier and that is this analysis, Exhibit Number 12.

24 A. Right. This is the gas analysis. And this is what facilitated
25 the necessity to run the gas down to the Flomatin Plant. As you can see the gas

1 going into the well stream was 34 percent CO 2, 9.43 percent H2S and that has
2 just -- that has got to be processed at the plant.

3 Q. So then you would, based on this, in the near -- close proximity
4 of the 2-2 well, you would anticipate that production from the proposed well
5 would also require treating and cleansing before products could be marketed; is
6 that correct?

7 A. That is correct.

8 Q. Now if I could refer you back to Exhibit 3 just a minute,
9 Mr. Hancock. I note on this Exhibit 3 you say that the structure conforms to 3-D
10 seismic data. Tell Mr. Rogers and members of the Staff about the access that you
11 had to the seismic data and as you are doing that I am going to pass out some
12 seismic lines. And you will understand after he testifies as to why I need
13 these back and why they were not pre filed.

14 MR. ROGERS: You got a affidavit he is going to testify to make
15 them confidential?

16 MR. WATSON: He is going to testify, yes, and he will tell you why
17 they are confidential.

18 Q. Tell us about it, Mr. Hancock.

19 A. We accessed the 3-D survey through Black Stone Minerals. They have
20 rights to the data. And they have acreage in the area, so they have a vestive
21 right in those companies coming in and looking and promoting their acreage.
22 However, they don't give us a license to the data. We don't own the data and we
23 have no ability to give it to anybody or to show it to anybody or anything like
24 that. They have kindly provided me the ability to work the data and have
25 actually given me a couple of -- let me make copies of a couple of seismic lines

1 that run through kind of the guts of the prospect. And that is what you will see
2 here, but I don't have the authority or the right to actually submit these as a
3 public Exhibit. It is beyond my ability to do that.

4 MR. ROGERS: I don't know if we ought to look at it if it is not
5 going to be admitted. Normally we admit seismic confidential that the testimony
6 suffices, unless if you want to submit that as an Exhibit into the record.

7 MR. WATSON: I do not. I just promised Mr. McQuillan that I would
8 have it to show to him if he would like to see it and that is the reason I
9 brought it. I cannot make it a part of the record, I cannot file it. And if you
10 choose not to look at it, that it is your option.

11 MR. ROGERS: I think it is up to you whether you want to admit it
12 or not.

13 MR. WATSON: I can't present it into the record.

14 MR. MCQUILLAN: These structure map that you are showing on the
15 Exhibit reflects this seismic?

16 THE WITNESS: Yes. And that is that we were showing on the
17 seismic. Basically the lines -- I can tell you, the lines kind of ran North
18 South and East West line. And it shows the crest of the structure that we are
19 proposing to drill. It shows the low between the structure and the Maguire
20 Attic Well 35-11. And then going East West it shows again the crest of the
21 structure that we are proposing to drill. And shows the reentrant or low
22 between the Anadarko Kelly 2-2 and Maguire 1-3. It was really just a simple
23 Exhibit to show we are honoring the data -- this map, its was, it just made
24 off -- again, I couldn't present the 3-D map, but I am allowed to, you know,
25 present a geologic map based on the 3-D interpretation. It is -- I mean, it is

1 very close. I mean, there is nothing funny about it at all.

2 Q. You also had, Mr. Hancock, did you not, the well control that you
3 described in the area, so the well control with the seismic that you were
4 allowed to look at from Black Stone, is it your testimony then that the geologic
5 map on Exhibit Number 3 is a fair and accurate representation of the structure
6 as is depicted on Exhibit Number 3?

7 A. Yes.

8 MR. WATSON: With that then, Mr. Rogers, I am going to ask that
9 you admit into the record today to the testimony of David Hancock, Exhibits 1
10 through 12.

11 MR. ROGERS: Those Exhibit are admitted. Exhibits 1 through 12
12 will admitted now.

13 Q. Mr. Hancock, would -- we are going to sum you up before I go into
14 the force pooling, but would the granting of this petition approving the
15 exceptional location of the Kelly 2-4 being 1250 feet from the West line of
16 Section 2 and 600 feet from the North line of Section 2 and the 640 acre unit
17 that we've described consisting of the South half of 35 and the North half of
18 Section 2, allow you to develop in this area, prevent waste and avoid the
19 drilling of any additional and unnecessary wells?

20 A. Yes.

21 Q. And would this unit that we have described as a drilling unit,
22 protect correlative rights?

23 A. Yes.

24 Q. All right. Very good. Now, if you have any questions of him before
25 I do my force pooling, I would stop now and see if the Staff has any questions

1 of my geological witness.

2 MR. ROGERS: Just one question, I assume that, Mr. Hancock, you
3 think this is a reasonable unit and follows past precedent and it is a
4 reasonable unit for development, even though it contains a dry hole?

5 THE WITNESS: Yes, sir, it is a gas unit. I know the field rules
6 for Smith's Church allows for a 640 acre unit. So that is what we went with.

7 MR. ROGERS: Thank you.

8 MR. WATSON: Anything else of my geological witness?

9 MR. ROGERS: No, sir.

10 MR. WATSON: Okay. Now, my next witness is Foster Kennedy.

11 Q. Mr. Kennedy, we have on file an -- I mean, an application of force
12 pool without the imposition to risk compensation fee to this unit. Are you
13 familiar with the ownership in this unit, Mr. Kennedy?

14 A. I am.

15 MR. WATSON: I tender him as an expert land man in giving
16 testimony in this item, Mr. Rogers.

17 MR. ROGERS: He is so recognized.

18 MR. WATSON: I assume you have a affidavit of notice in the force
19 pooling item, if not let's admit it now, April.

20 MR. ROGERS: Affidavit of notice is Exhibit A in Item 28,
21 affidavit of testimony is Exhibit B in Item 28.

22 Q. All right, sir. If you admit both of those. Mr. Kennedy, tell
23 Mr. Rogers and the Staff how you went about to determine the ownership in this
24 640 acre unit?

25 A. Just researching the records for Section 35, Section 2 Escambia

1 County, Alabama.

2 Q. Does Round Tree and Associates own or control a hundred percent of
3 the interest in this 640 acre unit?

4 A. No. They do not.

5 Q. Tell us what is outstanding.

6 A. We have got about 89 percent. And we are expecting another 3 or 4
7 percent to have over 90 percent before the well is drilled.

8 Q. Let's tell, for the record, let's tell Mr. Rogers about who we
9 have now that has -- that you have contacted and attempted to get leases from.

10 MR. ROGERS: Is this force pooling with risk compensation?

11 A. It is with risk comp, yes, sir.

12 Q. Okay. And I am going to hand up the -- all the stuff in just a
13 minute, Mr. Rogers. Go ahead.

14 A. In my affidavit of testimony, we got a list of those that were
15 unleased at the time that we prepared the petition. Since that time we received
16 leases from a few. We've agreed to terms with really the majority or almost all
17 of the none consenting owners. And so I can go through each one kind of --

18 MR. ROGERS: Just tell us the ones that are unleased at this
19 time.

20 THE WITNESS: That is what I am saying, I can go through each one
21 of the unleased owners. We can start with the Alice Sharp Trust A and B. We
22 basically, there is a bank, Farmer's Home that is the trustee for each of those
23 trusts. They have consented to our terms. They have supplied us a lease form,
24 which I got last night or actually late yesterday afternoon. I submitted that to
25 our operator who is reviewing it to see if that is something that we can live

1 with the terms.

2 MR. ROGERS: Let me take a minute right here now. Just sort of
3 summarize, we need to be listing each owner and then you are going to show the
4 efforts you made to negotiate a lease. I guess that is the way we will do it.
5 can you just tell us now, Mr. Kennedy, so we can know if it is going be 5 or 8?

6 THE WITNESS: There is probably I will say nine or ten.

7 MR. ROGERS: Why don't you just state those right now and then we
8 will go back and go through each one, the efforts on each one.

9 THE WITNESS: All right.

10 MR. WATSON: We would like that in a order too, Mr. Watson. The
11 names of the non consenting owners at this time.

12 THE WITNESS: Just want me to list them?

13 MR. ROGERS: Just read them out.

14 THE WITNESS: Alice R. Sharp, Trust A.

15 MR. ROGERS: Who is the trustee?

16 THE WITNESS: It is Farmer's Home. I don't know have that in
17 front of me right now, it is a group out of Tulsa.

18 MR. ROGERS: You got that. I assume that would be on your letters
19 to these people.

20 THE WITNESS: Right.

21 MR. ROGERS: Who the trustees are. Is Farmer's Home a bank?

22 THE WITNESS: It is a bank.

23 MR. ROGERS: Okay.

24 THE WITNESS: All right. Alice R. Sharp, Trust A and B.

25 MR. ROGERS: That is two separate entities?

1 THE WITNESS: That's right. Same trustee, two separate entities.

2 MR. ROGERS: Go ahead, sir.

3 THE WITNESS: Richard S. Snell. John C. Bebo, testamentary trust.

4 MR. ROGERS: Who is the trustee?

5 THE WITNESS: Richard Snell.

6 James S. Bebo testamentary trust, Richard Snell, trustee. Richard

7 W. Sharp, the third. Deborah Sharp Gustoffeson. Daniel Henacy Sharp. Thomas

8 Michael Sharp. Marion W. Sharp, revocable trust.

9 MR. ROGERS: Who is the trustee?

10 THE WITNESS: Jane Henson, J-A-N-E, H-E-N-S-O-N.

11 MR. ROGERS: All right.

12 THE WITNESS: JWW Trust. And I can't think of the gentleman's

13 name. It is two individuals. His brother, JFW Trust, signed his and sent it

14 back.

15 MR. ROGERS: We would like to supplement it. You can put all the

16 trustee, legal owners instead of the name of the trust.

17 THE WITNESS: It is in our letter that we sent out.

18 MR. WATSON: You got the letter.

19 MR. ROGERS: We would like to supplement the record so we can have

20 a list of owners, otherwise it is kind of confusing here.

21 MR. WATSON: All right.

22 MR. ROGERS: JFW Trust?

23 THE WITNESS: JWW. JFW Trust is under lease.

24 MR. ROGERS: So JWW trust?

25 THE WITNESS: Yes.

1 MR. ROGERS: Trustee is who?

2 THE WITNESS: The individual name and I am not sure. We have got
3 it, I just don't --

4 MR. ROGERS: You can supplement the record of the list. What would
5 be helpful to us would be to have a list of all these owners, these are the ones
6 we are force pooling on this date, because otherwise it will be confusing.

7 MR. WATSON: I think we filed that on Friday of last week.

8 MR. ROGERS: If you got a copy I will take it now, Tom. That would
9 be helpful.

10 MR. WATSON: Mine is marked on. I will show you my marked on copy.

11 MR. ROGERS: Just prepare one for the record.

12 MR. WATSON: I did. I will prepare a new list and submit it to
13 you.

14 MR. ROGERS: That is what we need. Keep going.

15 THE WITNESS: JWW. All right. Then we go to Sam and Peggy Kelly
16 or Samuel M. Kelly and Peggy B. Kelly. Shawn A. Kelly. Emily Hall Vickery and
17 Celia B. Lewis.

18 Q. Okay. All right now --

19 MR. ROGERS: Now we got to go through the diligent efforts to
20 negotiate with all these people. We are going to be here a while, aren't we?

21 MR. WATSON: Yes, sir.

22 Q. Go ahead, Mr. Kennedy.

23 MR. ROGERS: Start with Farmer's Home.

24 A. Farmer's Home, we submitted an offer to them. Their trustee

25 responded to us, made us a counter offer. Actually accepted our terms but using

1 their lease form. Where we are right now is if we approve their form, they are
2 going to go ahead and lease to us.

3 MR. ROGERS: That is simple enough.

4 THE WITNESS: This is going to be short.

5 MR. ROGERS: That is same for both of those trustees.

6 THE WITNESS: That's correct. Richard Snell has told us as of
7 yesterday he had signed his lease and put it back in the mail to us. He also
8 signed his trustee for the John C. Bebo testamentary trust. And the James S.
9 Bebo testamentary trust.

10 MR. ROGERS: Okay.

11 THE WITNESS: Richard Sharp, we sent more than one lease to him,
12 he did not get the latest lease that we sent to him. We agreed to a revised
13 Exhibit that is acceptable with all of the people on this list.

14 MR. WATSON: You discussed this with Richard Sharp and he said he
15 may lease?

16 THE WITNESS: He said he is going to lease.

17 MR. ROGERS: Good enough. Go to the next one.

18 THE WITNESS: Deborah Sharp Gustoffeson has signed her lease and
19 put it back in the mail to us. This was a conversation as of yesterday.

20 MR. ROGERS: All right.

21 THE WITNESS: Same for Daniel Henacy Sharp, Thomas Michael Sharp
22 and the Marian W. Sharp, revocable trust.

23 MR. ROGERS: Jane Henson trustee?

24 THE WITNESS: That is correct. JWW Trust, we are told the same
25 thing. Signed lease and put that back in the mail.

1 MR. ROGERS: Who is trustee again?

2 THE WITNESS: I don't know that right now.

3 MR. ROGERS: Are you going to submit that?

4 MR. WATSON: Yes, I think it is in the letter you have.

5 THE WITNESS: Then we get down to Samuel Kelly and Peggy Kelly,
6 our broker talked with Mr. Kelly early on on several occasions. Mr. Kelly was,
7 I will say, somewhat unresponsive to our efforts to discuss terms of a lease and
8 really obtain his interest. I went further to have a contact and an acquaintance
9 of Mr. Kelly ask him if he would just give us an opportunity to talk with him.
10 He contacted him. And the gentleman that I am referring to suggested that I
11 send him an e-mail and try to set up a time to talk with him. I sent him an
12 e-mail asking at his convenience if he would provide me a time and that I would
13 call him. Mr. Kelly did not respond to me, he responded to our broker who he had
14 had initial contact with.

15 MR. ROGERS: That is good enough. He negotiated with your broker,
16 that is good enough.

17 THE WITNESS: That is correct.

18 MR. ROGERS: Do they own that joint tenants to right of
19 survivorship?

20 THE WITNESS: They own part of it as tenant survivor through a
21 series of these, one of which we provided to you, it was a quick claim mineral
22 deed from Shawn Kelly.

23 MR. ROGERS: That is good enough. Did you negotiate with Peggy B.
24 Kelly or your feel like --

25 THE WITNESS: Mr. Sam Kelly told us early on, he agreed with our

1 ownership showing that Shawn had an interest.

2 MR. ROGERS: Talking about Peggy now.

3 THE WITNESS: Right. I am going to address both. He let us know
4 early on that he would be the one having negotiations for he, his wife and Shawn
5 Kelly. He also directed that we send our correspondence to -- for him and Peggy
6 at their address as well as any documentation for Shawn Kelly to the same
7 address.

8 Q. In fact, Shawn Kelly by documents on public record has an address
9 as Sam and Peggy's address; is that correct?

10 A. That is correct.

11 Q. We know as a matter of fact, that Shawn's interest comes out or
12 carved out of Sam and Peggy's interest?

13 MR. ROGERS: I am not concerned because y'all have a green card
14 from all these people.

15 A. That is correct.

16 Q. Their only son. Now you have one more?

17 MR. ROGERS: Emily Hall Vickery.

18 A. Yes. She actually e-mailed to Mr. Watson's office her election to
19 lease. And we are in the process of providing a lease to her.

20 Q. Okay.

21 MR. ROGERS: The last one, Celis B. Lewis.

22 THE WITNESS: Same thing. They both agreed to lease, these are
23 sisters.

24 MR. ROGERS: Okay. Well that may cover diligent effort, so the
25 only thing left then, I suppose, is just to submit the green cards that they

1 signed.

2 MR. WATSON: I have handed those up, Mr. Rogers and ask that you
3 make them part of the record?

4 MR. ROGERS: You got letters to all these people? I guess we
5 ought to just admit the ones -- why don't we take -- maybe take a brief recess
6 and just do that. But I don't want to admit all this other stuff for people that
7 have leased, let's admit the ones --

8 MR. WATSON: If you will hand me that back I will have Mr. Kennedy
9 go through that.

10 MR. ROGERS: We can take a recess and go on with some other Items,
11 you want to do that?

12 MR. WATSON: Well, it just so happens that Item that you wanted to
13 go forward with today I have. You want to do that one? Ventex.

14 MR. ROGERS: How are we going to do this? We will proceed with
15 another matter and we will let you prepare that information and then we will
16 admit it after we finish this other matter.

17 MR. WATSON: Just sit right there and do it.

18 THE WITNESS: What do you want me to put on this? Just note the
19 ones that have leased?

20 MR. WATSON: No, just pull the ones out that you don't have leases
21 on.

22 MR. ROGERS: We need the green cards and the letters, just to the
23 ones who are unleased at this time. We did not admit these -- I am not sure we
24 admitted an affidavit of notice or revised affidavit of notice on Item 15.

25 All right. Let's proceed then and save some time here with Ventex

1 Item 30, Mr. Watson, Docket No. 8-5-14-18, Petition by Ventex Operating
2 Corporation.

3 MR. WATSON: I have pre filed an affidavit of notice in this
4 matter and ask that you make it a part of the record?

5 MR. ROGERS: Give us a minute. Affidavit of notice is admitted.

6 MR. WATSON: This is a request by Ventex Operating Corporation
7 asking the Board to enter a order approving a 40 acre exceptional non
8 governmental Wildcat drilling unit for the Craft-Dunn 22-4 Number one well,
9 consisting of the South half of the Northwest quarter of the Northwest quarter
10 and the North half of the Southwest quarter of the Northwest quarter of Section
11 22, Township 5 North, Range 5 East, Monroe County, Alabama, as an exception to
12 Rule 400-1-2-.02(2A), by the State Oil and Gas Board Administrative Code.

13 I have an affidavit of testimony by David Skidmore who has on file
14 an affidavit of his qualifications and has been accepted as an expert petroleum
15 geologist to be handed up to you in this matter.

16 MR. ROGERS: Since we have not reviewed it this way, we are going
17 to make sure the staff has time to read through the affidavits here of
18 testimony. We didn't expect to hear it today.

19 MR. WATSON: Nor did I. I have pre filed Exhibits in this matter,
20 Mr. Rogers, and I have one set of those that we can put in the record today,
21 recognizing the Staff has probably used your copies. So these are Exhibits that
22 are prepared by or under the control of David Skidmore, Exhibits 1 through 4B
23 and we also have seismic Exhibits, and I have filed an affidavit of
24 confidentiality and a letter asking that the seismic lines that were pre filed
25 be kept confidential. I would ask that you rule that those seismic lines

1 submitted in support of this non governmental quarter border be declared
2 confidential and not available to the public.

3 MR. ROGERS: Let's slow down and be sure we got all of this. We
4 admitted the affidavit of notice. This is Docket No. 8-5-14-18. So we will look
5 at the affidavit of testimony.

6 MR. WATSON: All right.

7 MR. ROGERS: You have the -- here is the affidavit of
8 confidentiality, all right. That would be admitted. We will admit the affidavit
9 of confidentiality as Exhibit B.

10 MR. WATSON: All right, sir.

11 MR. ROGERS: The affidavit of testimony will be C.

12 MR. WATSON: All right, sir.

13 MR. ROGERS: Why don't you summarize what the request is,
14 Mr. Watson, the grounds for the non governmental unit.

15 MR. WATSON: This is -- Ventex proposes to drill a 40 acre Wildcat
16 on the basis of 3-D seismic information, to drill a well and then come back to
17 the Board if the well is a producer and reform it to a production unit. They are
18 drilling on the basis of seismic control. The reason we are asking for the split
19 40 acre unit is that the well, as the evidence will show, is 352 feet from the
20 West line and 1295 feet from the North line of Section 22. If we were to propose
21 this as a governmental quarter quarter, being the Northwest quarter of the
22 Northwest or the Southwest quarter of the Southwest quarter, it would be an
23 extreme exceptional location right on the center line. So we are asking this be
24 approved as a split governmental quarter quarter unit to get the well drilled at
25 a reasonable location.

1 MR. ROGERS: That has been accepted many times as grounds for a
2 non governmental unit.

3 MR. WATSON: Yes, sir.

4 MR. ROGERS: So we will admit those Exhibits and they are Exhibits
5 1, 2, 3, 4A and 4B.

6 MR. WATSON: Yes, sir.

7 MR. ROGERS: Anything else there, Mr. Watson?

8 MR. WATSON: That is all I have on that Item, Mr. Rogers.

9 MR. ROGERS: Any questions?

10 MR. MCQUILLAN: You only brought one copy today, right?

11 MR. WATSON: Yes, sir.

12 MR. MCQUILLAN: Would you mind bringing a couple more say
13 Thursday?

14 MR. WATSON: I will be glad to. Ten coming Thursday.

15 MR. ROGERS: All right. On that Item, Item 30 petition by Ventex,
16 the Staff will review the evidence and make a recommendation to the Board.

17 Mr. Kennedy, are you ready to proceed again with Round Tree or
18 take your time. We can go ahead on some other items.

19 MR. KENNEDY: All I am doing is sorting.

20 MR. ROGERS: We will proceed with Item Number 32, petition by Bay
21 Gas Storage Company, Docket No. 8-5-14-20.

22 MR. ROGERS: Why don't you summarize this, Mr. Coleman?

23 MR. COLEMAN: Mike Coleman for Bay Gas Storage Company Limited.

24 This is a petition to enter an order amending Rule 1 of the Special Gas Storage
25 Rules for the Bay Gas Salt Dome Gas Storage Facility Number 2 in McIntosh,

1 Alabama. And also to correct a typographical error in the special field rules
2 from the Northwest to the Northeast. And this matter is submitted upon the
3 affidavit of the engineer. For this particular facility project engineer, who is
4 Maurice Gilbert. Would you like for me to summarize essentially what this
5 involves?

6 MR. ROGERS: Absolutely.

7 MR. COLEMAN: This involves two gas storage facilities in McIntosh
8 Salt Dome area. Bay Gas recently completed a storage cavity for facility Number
9 5. Surveys and sonar logs made after the completion of the storage cavity for
10 facility Number 5, indicate that the Eastern edge of the cavity extends a few
11 feet into the buffer zone for facility Number 2, which is to the East. Although
12 the walls of the cavity themselves are more than 400 feet apart, the small
13 encumbrance can be cured by amending the description of the cavity site of
14 facility Number 2 to simply move the West line of the cavity sight a few feet to
15 the East, which can be done while still enclosing all of the storage cavity for
16 facility Number 2 within the revised cavity site description. It is my
17 understanding, Mr. Rogers, that testimony presented at the hearing at which the
18 buffer zone for facility Number 2 was adopted, was to the effect that the
19 minimum safe distance between cavities was 200 feet and that the Bay Gas unit
20 established the buffer zone of some 400 feet out of caution as a safe distance
21 apart. The sonar logs and surveys of the storage cavities for Exhibit Number 2
22 and 5 show that although the Eastern edge of the cavity for facility Number 5 is
23 less than 400 feet from the West line of cavity site for facility Number 2,
24 there is still more than 400 feet of separation between the cavities themselves.
25 So this petition simply seeks to amend the special field rule -- special rules

1 for facility Number 2, to give it a new legal description and to correct a
2 typographical error which apparently occurred in describing the area. And the
3 affidavit of Maurice A. Gilbert, he is the principal project engineer for the
4 general partner of this limited partnership, Semptra Midstream, Inc. And his
5 testimony is in the affidavit that sets forth a lot of what I have just
6 addressed. Attached to his affidavit is a survey, actually two surveys, the
7 first show the new proposed legal description for facility Number 2 and the
8 second shows the surveying relationship of both facility Number 5 and Number 2.
9 So that is essentially what Bay Gas is asking for.

10 MR. ROGERS: All right. So you want to admit the affidavit of
11 Mr. Gilbert?

12 MR. COLEMAN: Yes.

13 MR. ROGERS: It is admitted as Exhibit A. Do you have any other
14 Exhibits?

15 MR. COLEMAN: I do not.

16 MR. ROGERS: All right. Any questions, Mr. Gregory? No questions.
17 Anything else you propose?

18 MR. COLEMAN: No, sir.

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

21 MR. COLEMAN: Thank you.

22 MR. ROGERS: Back to Round Tree. I am thinking of the unitization,
23 maybe we need to take a recess and come back after lunch so we can cover all
24 that in detail. We really got a lot to cover on that. Is Mr. Kennedy ready to
25 proceed?

1 THE WITNESS: Yes, I am finished with as far as, you know, these
2 are the ones unleashed, these are the leased ones.

3 MR. ROGERS: I think what we can do then is just say these are the
4 non consenting owners at this time. And we are going to admit into evidence
5 letters and attached information sent to them. So we will do the letters to all
6 the non consenting owners and the green cards showing that they signed the --
7 they received information, all that is admitted.

8 MR. WATSON: Okay.

9 MR. ROGERS: We appreciate that, Mr. Kennedy, because that makes it
10 a lot easier on everybody.

11 MR. WATSON: Let me end with my question. I need to go through
12 some questions with Mr. Kennedy on the force pooling.

13 Q. Mr. Kennedy, does Round Tree, together with other consenting
14 owners, own a majority of interest in the drilling and operating rights in the
15 proposed unit?

16 A. They do.

17 Q. And have you made a good faith effort to negotiate with each non
18 consenting owner, to have said owner's interest voluntarily pooled into the
19 unit?

20 A. Yes.

21 Q. Have you notified each non consenting owner of record of those
22 parties who have agreed to pool their interest?

23 A. I have.

24 Q. Have you ascertained the address of each non consenting owner?

25 A. I have.

1 Q. Have you given each non consenting owner written notice of the
2 proposed operation, specifying the work to be performed, the proposed location,
3 the proposed depth, objective formation and the estimated cost of the proposed
4 operation?

5 A. I have.

6 Q. Have you offered each non consenting owner the opportunity to
7 lease or farm out on reasonable terms or participate in the cost and the risk of
8 developing and operating the unit well involved on reasonable terms?

9 A. Yes.

10 Q. Did you notify the non consenting owners that if they did not pay
11 their portion and share of the drilling and completion cost within the 30 days
12 after the commencement of actual drilling operations or prior to reaching total
13 depth, which ever is earlier, then there should be charged to the tract or
14 interest a risk compensation fee equal to 150 percent of such tract or interest
15 share and the actual and reasonable cost of drilling, reworking, testing,
16 plugging back, deepening and completing the well?

17 A. Yes, I have.

18 Q. Did you advise the non consenting owners that if before
19 commencement of actual drilling operations, they provided a notarized statement
20 agreeing to pay such costs, then in such event their tract or interest would not
21 be penalized?

22 A. Yes.

23 Q. And is it your testimony that the granting of this petition force
24 pooling with the impositional risk compensation fee, will prevent waste, protect
25 correlative rights and promote orderly development?

1 A. Yes.

2 MR. WATSON: That is all I have of this witness. I tender him for
3 any questions you have, Mr. Rogers.

4 MR. ROGERS: No questions on the force pooling. Any other
5 questions? Staff has no questions.

6 DR. TEW: I will say, Mr. Kennedy, we appreciate the thorough job
7 that you did with that.

8 MR. ROGERS: Anything else, Mr. Watson? We will review the
9 evidence and make a recommendation to the Board.

10 I think we need to go ahead -- this will go through a complicated
11 unitization, so let's come back at 1:30.

12 MR. WATSON: May I check with my witnesses and see what time their
13 plane goes back to Houston.

14 (Short break.)

15 MR. ROGERS: Hearing is in session. The last Items for hearing
16 today are the petition by Fairways Exploration and Production, LLC. Docket No.
17 33 and 34 -- Items 33 and 34, Docket No. 8-5-14-21 and 8-5-14-22. Mr. Watson?

18 MR. WATSON: Mr. Rogers, let's consolidate those for hearing
19 purposes, please.

20 MR. ROGERS: That request is granted.

21 MR. WATSON: I would ask that you admit into the record in this
22 hearing a pre filed affidavit for the notice in this matter.

23 MR. ROGERS: They are admitted as Exhibits A and B.

24 MR. WATSON: I have two witnesses that I need to have sworn in,
25 please, sir.

1 MR. ROGERS: Gentlemen, stand and state your name and addresses.

2 MR. STEWART: Dwayne Stewart, Fairways Exploration Production,
3 business address, 13430 Northwest Freeway, Suite 900, Houston, Texas 77040.

4 MR. SELMAN: Breck Selman, Fairways Exploration and Production,
5 same address, 13430 Northwest Freeway, Suite 900, Houston, Texas 77040.

6 DWAYNE STEWART AND BRECK SELMAN,

7 Being first duly sworn, were examined and testified as follows:

8 EXAMINATION

9 BY MR. WATSON:

10 Q. Mr. Rogers and members of the Staff, Fairways is asking the Board
11 in these consolidated petitions to amend the special field rule for the Clear
12 Creek Field and to approve a field wide unit for what would be proposed to be
13 called the Clear Creek Oil Unit. All of this in Escambia County, Alabama. I will
14 give you a description of that as we go through the Exhibits. This is a two well
15 field where my client will describe for you the procedures they plan to employee
16 to enhance recovery in this field. The testimony will show that with its
17 enhance recovery, there is an amount of oil that would be recovered that would
18 not otherwise be recovered without this. We have circulated unit agreement, unit
19 operating agreements to the working and royal interest owners. We have prepared
20 today to present the ratifications of those agreements, all of which are in
21 excess of the statutory requirement of 66 and 2/3 percent. With that brief
22 introduction, my first witness is Dwayne Stewart. Mr. Stewart has appeared
23 before you, but I want him just to briefly tell you what his position is with
24 Fairways and his connection with this proposed unit.

25 A. My name is -- once again, my name is Dwayne Stewart. I am the

1 president of Fairways Exploration. The 17-14 well was the original discovery
2 well for the Clear Creek Field which Fairways drilled and we subsequently off
3 set with a 17-15 well and that is what leads us to the hearing today.

4 Q. Did you prepare Exhibits or have Exhibits prepared under your
5 control and supervision in support of this unitization and amendment to the field
6 rules?

7 A. Yes.

8 Q. Mr. Rogers, I tender Mr. Stewart as an expert petroleum engineer
9 for giving testimony in this matter.

10 MR. ROGERS: He is so recognized.

11 Q. Mr. Stewart, if you would take the booklet of Exhibits, which I
12 have handed up there on the table in front of the staff, Exhibit A, tell
13 Mr. Rogers and staff what is shown on Exhibit A, please, sir.

14 A. Exhibit A is a base map of the Clear Creek Field covering Section
15 17 and 20 of Township 2 North, Range 12 East in Escambia County, Alabama. The
16 surface hole location and bottom hole location for both the 17-14 and 17-15
17 wells are shown. The existing 160 acre units around both of the said wells are
18 labeled tracts one and two. Those are shown as green dashed lines. And each of
19 the proposed 80 acre North extensions in Section 17 are labeled tracts three and
20 four and are shown as dashed red and dashed magenta lines.

21 Q. Is tracts three and four that we are proposing in the consolidated
22 petitions today to add to the field limits for Clear Creek field, correct?

23 A. That is correct.

24 Q. Go to Exhibit B, Mr. Stewart, and tell us what is shown on Exhibit

25 B.

1 A. Exhibit B is simply a unit plat showing the four tracts and the
2 governmental quarter quarter sections.

3 Q. All right, sir. Now, turn if you will to your Exhibit Number 1,
4 tell us what the Exhibit is and describe the information shown on it, please,
5 sir.

6 A. Exhibit Number 1 is a typed log and is a portion of the wire line
7 log for the Fairways Exploration Production Number 1 Cedar Creek Lane and Timber
8 17-14. I am going to abbreviate that and call it the 17-14 from here on out.

9 Q. Okay.

10 A. The 17-14 was the discovery well for the Clear Creek Field. On
11 this type log we have included Gamma ray, resistivity, density and neutron
12 porosity, sonic and bolt density curves. There are two depth tracts labeled in
13 the middle. The left depth tract is in sub sea depth and the right depth tract
14 is in measure depth. The entire Smackover formation is shown between measure
15 depths 12980 feet to 13245. We have indicated tops where the Buckner, the
16 Smackover in Norphlet as shown on this type log, but for clarity, the Buckners
17 at 12949 feet measured, Smackover is at 12980 feet measured, and the Norphlet is
18 at 13245 feet measured depth. Log analysis indicates lowest known oil or LKO as
19 I will refer to it at a measured depth of 13022 feet measured. Highest known
20 water is slightly below that at 13026 measure depth. And the perforations of the
21 17-14 or the perforated interval is exhibited on here with the rectangle with
22 the solid green circles in the middle of it. Those are from 12980 to 13020
23 measure depth.

24 MR. ROGERS: Excuse me, is that also how you identified the
25 unitized interval in the --

1 A. Excellent segway, I was getting ready to talk about that. For
2 purposes of today's hearing, the unitized interval that we are asking for is to
3 be the top, 12980 feet measure depth and the base which is 13022 which conforms
4 to the lowest known oil.

5 Q. That is what is included in our unit agreement, Mr. Rogers.

6 All right. Let's go to Exhibit Number 2, Mr. Stewart.

7 A. Exhibit Number 2 is a regional sub surface structure map at the
8 top of the Smackover formation based upon 3-D seismic and 3 well penetrations.
9 Two of the well penetrations are in the Clear Creek Field and have logged
10 hydrocarbons. One of it is to the North of the Clear Creek Field, which is on
11 this map and it is called the TR Miller Mill 17-4 up to the due North of tract
12 four. The map covers all of Section 17 and portions of Sections 16, 18, 19, 20
13 and 21, all in Township 2 North, Range 12 East. All the depths on this map are
14 in sub sea depths and it is on a 20 foot contour interval. Four way structural
15 closure is present. Shows 60 feet of relief. And the closures in the South half
16 of Section 17 and the North half of the Northeast quarter of Section 20. The
17 existing 160 acre units around both the 17-14 and 17-15 wells are shown as
18 dashed black lines, once again are labeled tracts 1 and 2 respectively, and the
19 proposed 80 acre extensions, which are represented as tracts 3 and 4, are also
20 shown in black dashed out lines.

21 Q. Tell us, if you would, Mr. Stewart, about the significance of this
22 TR Miller 17-4 well as it relates to the hydrocarbon accumulation that you are
23 proposing to unitize?

24 A. As I previously testified, the lowest known oil at the Clear Creek
25 Field is the minus 12900 feet sub sea, which is actually deeper than the

1 Smackover as the top of the Smackover logged in the TR Miller Mills. So we are
2 clearly looking at some sort of isolated tank or four way closure that puts oil
3 down this with water.

4 Q. All right, sir. Go to your Exhibit Number 3, Mr. Stewart.

5 A. Exhibit Number 3 is just a sub surface structure map of the Clear
6 Creek Field. Similar as the prior map with the exception that instead of 20 foot
7 contour intervals we have known shown it on ten foot contour intervals on sub
8 sea depth.

9 Q. Okay, sir. That will allow the mapping you are going to testify
10 to in later Exhibits, correct?

11 A. That is correct.

12 Q. All right, sir. Go to Exhibit Number 4.

13 A. Exhibit Number 4 is a cross section, and I failed to mention this,
14 but if you flip back to Exhibit Number 2 you will see a red line, that connects
15 the bottom hole location in 17-14 and the bottom hole location to 17-15 on
16 Exhibit 2. That is the index for this cross section of Exhibit Number 4.

17 Q. All right, sir.

18 A. This cross section extends just under 2 thousand feet between the
19 two bottom hole locations. Once again, the tops are shown for Buckner, Smackover
20 and Norphlet. Perforated intervals in both wells are shown with the green
21 rectangle with the solid green circles. The cord interval in the 17-15 as shown
22 as red squares stacked on top of each other that we took hole conventional core
23 in. Also the core analysis has been included for purposes of Exhibits, that is
24 Exhibit Number 5. One side note though, the core report depths are eleven feet
25 high to the log depths.

1 Q. All right, sir. So that Exhibit Number 5 is the Weatherford Core
2 report, and what is the significance of that core report?

3 A. Just shows that we are dealing with a porosity in the Smackover
4 system that ranges from type zero percent porosity, all the way up to -- we see
5 porosities ranging 15 percent and perms as low as -- close to zero millidarcies
6 in oil bearing window. And permeabilities ranging up to darcies just below it
7 in the water varying interval.

8 Q. This core is on the 17-15 Number One, which as Mr. Rogers and the
9 others will hear in a minute, will be the injection well for this enhanced
10 recovery project?

11 A. That is correct.

12 Q. All right, sir. Now, the next few Exhibits, 6, 7, 8 and 9, would
13 you go through those, please, sir?

14 A. Perfect. Exhibit Number 6 through 9 are maps that have been
15 preliminary reservoir areas. And their corresponding calculated volume for each
16 of the four tracts. Exhibit Number 6 is tract number one and it represents the
17 reservoir area and volume within the existing 160 acre unit around the 17-14
18 producing well. Exhibit Number 7 is tract Number 2, that is the reservoir area
19 and volume within the existing 160 acre unit around the 17-15 well. Exhibit
20 Number 8 is the reservoir area and volume within the proposed 80 acre North
21 extension, which is due North of the 17-15 unit. And Exhibit Number 9 conforms
22 to tract four, which is the reservoir area and volume within the proposed 80
23 acre North extension which is due North of the 17-14 producing unit.

24 Q. All right, sir. Now, I have not stated at this point the formula
25 that we are recommending to the Board. Tell Mr. Rogers before we start on

1 Exhibit Number 10 the tract participation formula that we are recommending be
2 adopted for this new unit?

3 A. The tract participation formula gives half credit for net
4 hydrocarbon pore volume in each tract and each tract having a producible well.

5 Q. All right, sir. That being said, describe what is shown on
6 Exhibit 10.

7 A. Exhibit 10 is a net Hydrocarbon foot map of the Smackover area in
8 the Clear Creek Field. Contour intervals are about 0.4 feet. We have also
9 attached a petrophysical summary, Exhibit 11, that will feed directly into
10 Exhibit 12, and we actually calculate the tract factors. The limited shape of
11 this map conforms to the structure maps that we previously put in earlier
12 Exhibits.

13 Q. All right, sir. And Exhibit Number 11, are those petrophysical
14 calculations and at the very top of that in blue are the cutoffs for porosity;
15 tell us what those are.

16 A. We have used a porosity cut off of greater than equal to five
17 percent and water saturation cut off of less than equal to 60 percent.

18 Q. All right, sir. Now look at your next Exhibit, Number 12.

19 A. Okay. Exhibit Number 12 is the table showing the tract factor
20 calculations for tracts one through four, values for the acreage, the gross
21 volume, porosity, water saturations that were obtained from Exhibit Number 6, 9
22 and Number 11, as previously discussed. Also, once again, the unit tract factors
23 for each tract is based upon a formula, given half credit for Hydrocarbon pore
24 volume and half credit for producible well. So specifically, tract Number 1, its
25 unit tract factor calculates to be 0.4090. Tract Number 2 calculates to be

1 0.5074. The tract factor for tract Number 3 calculates to 0.0162 and for tract
2 Number 4 it calculates to be 0.0674. And the summation of all of the individual
3 unit tract factors does indeed equal 1.

4 Q. All right, sir. Your next Exhibit, Exhibit 13?

5 A. Exhibit Number 13 is just a graph of daily production for the
6 17-14 well since inception. There is a lot on this graph. I have tried to make
7 it as easy to read as possible but what is really important to note is the peach
8 colored or orange colored, depending upon how your colored copies came out,
9 diamonds. There is two at the very beginning in late 2012, early 2013, those
10 were initial pressures that were taken upon completing 17-14. What is
11 interesting is we actually had a pressure transient analysis done after the
12 second bottom hole pressure with just a small amount of production where the
13 engineer actually put a question mark saying is this indication of pressure
14 depletion because we had only produced very little bit, but we saw about a 50
15 PSI drop in bottom hole pressure. At the time we didn't think a whole lot of it.
16 Subsequent to that in early 2014 we drilled the offset 17-15 well about 2
17 thousand feet away into the same structure, and measured the red diamond, which
18 actually sits on top of the blue curve, you can see it, but it has been shown
19 here for a reference where we measured bottom hole pressure just over 3500 PSI.
20 Significant depletion inside the tank. More than we had expected. So as soon as
21 we could, we basically actually shut in the 17-14, the well that was producing,
22 and did a bottom hole pressure build up in it in April of this year, and sure
23 enough it also corroborated the significant pressure depletion, which it came in
24 around 2,700, 2800 PSI. So in basically 15 months of production, we seen close
25 to a 3500 PSI drop in static bottom hole pressure. Given that based upon the

1 standings correlation, we predicted the bubble point to be around 2300 PSI. We
2 wanted to immediately commence actions to start doing pressure maintenance so we
3 can keep it above bubble point for as long as possible.

4 Q. Was one of those actions, Mr. Stewart, not putting the 17-15 on
5 production?

6 A. That is correct. Two straws in a pressure depletion tank just
7 accelerates it going through bubble point.

8 Q. Okay. Now your next Exhibit 14.

9 A. Exhibit 14 is simply the tabular data that goes with the graph.

10 Q. Okay. All right. Now, let's skip over Exhibit 15, we will come
11 back to that with Mr. Selman. And for you, let's go to Exhibit Number 16,
12 please, and let's describe your plan for unit operations. You told us now about
13 why you are going to employ this plan, because of the precipitous drop in
14 pressure, now tell us what you plan to do about that.

15 A. Once the field wide unit is established, a permit will be filed
16 for converting the idle 17-15 well to a water flood injection well. Near term
17 water source will actually be the produced water from the 17-14. And it will
18 provide approximately 150 reservoir barrels per day of water. By re injecting
19 all the produced water out of the 17-14, our net reservoir voidage will drop by
20 more than 50 percent. In order to completely offset reservoir voidage and begin
21 repressurizing reservoir, additional water will be obtained from the existing
22 shallow source water well that is on location. I should mention the surface
23 location for both wells are a little over 300 feet apart. They share essentially
24 a common path or a double wide path.

25 Q. Okay. That is good to know. Al right, sir.

1 A. To date, approximately 200 thousand net reservoir barrels which is
2 oil plus solution gas plus water have been produced at the Clear Creek field. At
3 initial condition reservoir pressure was measured at approximately 6300 PSI.
4 That was back in December of 2012. And the most recent bottom hole pressure
5 indicates the current reservoir pressure to be about 2800 PSI. That was in
6 April of 2014 measuring the 17-14. As such we expect there will be minimal
7 surface pumps and facilities that will be required for water injection. And we
8 plan to ramp up water injection into the 17-15 slowly with time and then monitor
9 performance of the offset 17-14 producer. Looking more long term, we anticipate
10 the maximum daily water injection to be in the range of 500 to a thousand tops.
11 And as the performance of the water flow is evaluated, additional producing
12 and/or injection wells may be drilled.

13 Q. It seems clear that if you do not institute this water flood
14 operation that you will clearly leave oil in the ground that would not be
15 produced, thereby permitting waste, is that a fair statement?

16 A. That's correct.

17 Q. Okay. All right. Now, if you are going to institute unit
18 operations, talk to us about what you are showing on Exhibit 17 which is an
19 overview of your economics. I will remind you of the fact that the law requires
20 that the cost incident to conducting unit operations should not exceed the
21 revenue generated by the additional reserve, so what does this look like?

22 A. Right. If we do nothing and let the 17-14 go on decline, we expect
23 an additional 60 thousand barrels. We consumed a day a little over 11 thousand
24 barrels in the 17-14, in the last year and a half, and just letting on decline
25 we will get to about 160 by doing nothing. But implementing the water flood, we

1 believe we can get an incremental above and beyond just pure depletion of
2 decline curve of an additional 100,000 barrels of oil. And that should cost us
3 incrementally around 100 thousand dollars. So the incremental investment far
4 exceeds the value of the capitol investment.

5 Q. You would estimate those revenues to be in the neighborhood of ten
6 million dollars?

7 A. Yes, before royalties and severance taxes.

8 Q. Okay. All right.

9 A. Under current commodity prices.

10 Q. I understand. All right. But clearly you meet the statutory
11 obligations I just described here, you are not going to spend more money to
12 implement this than the revenue expected to make?

13 A. No, I would be quickly out of a job if I did that.

14 Q. Okay. Okay. Now, if this project is as you described it, in need
15 of this water flood operation, then you clearly are designing the plan to
16 prevent waste, that is prevent a loss of oil that you now believe you have
17 discovered in this, and you are also going to maximize a recovery from this oil
18 pool in the Clear Creek Field by this water in -- by this water injection
19 program; is that right?

20 A. That is correct.

21 Q. All right. Now, you have described in your Exhibits here, in your
22 first Exhibits that you point out, Exhibits A and B, you described the unit area
23 and that is in our pleadings, and you have now described the nature of the
24 operations you anticipate, that is water injection. We are going to now come to
25 the ownership of royalty and working interest in this area. As you know, the

1 law in Alabama requires 66 and two-thirds of the royalty working interest owners
2 must approve this plan. So let's look now at, if you would, let's look back and
3 look at the interest of the various royalty interest owners that you have
4 calculated for this distribution. Let's look at, if I can turn the pages,
5 Exhibit 15. Let's look at Exhibit 15 and tell us how that is put together,
6 please, sir. I want him to talk about the formula before you talk about the
7 numbers.

8 A. Exhibit 15 takes each of the four tracts that we have been
9 discussing today and starts out with everyone's initial interest, whether it be
10 a working interest, cost bearing interest or just a pure revenue interest. And
11 then using the unit tract factors that we discussed from Exhibit 12, it then
12 calculates what their post unitization interest would be on both the working
13 interest and on revenue interest basis. For any line item that you see that has
14 a revenue interest but no corresponding cost bearing or working interest, those
15 would be your pure royalty owners. And when we originally submitted this three
16 weeks ago, there were roughly, counting royalty owners and work interest owners
17 about 82 line items. And I think what is being submitted here, Tom, we have had
18 a trust dissolve that we just received last night, and I believe line item 11
19 has now been broken a part into 13 different line items.

20 Q. I will talk about that with Mr. Selman in just a minute. This
21 Exhibit 15 then is a decimal reflection of the participation formula that you
22 just described, the 50 percent Hydrocarbon pore volume, 50 percent producible
23 well expressed out to 7 decimal places, correct?

24 A. I believe it is 8, but you are correct.

25 Q. All right, sir. My next witness is Breck Selman. Mr. Selman has on

1 file a affidavit of his qualifications. Mr. Selman, you are familiar with the
2 Clear Creek Unit as we are proposing it here today?

3 A. Yes, sir.

4 Q. Your position with Fairways Exploration and Production is what
5 again?

6 A. Vice president of Land and Business Development.

7 Q. So it falls under your responsibility to determine ownership and
8 to get the unit agreement, unit operating agreement ratified, correct?

9 A. That is correct.

10 Q. You and broker's working for you have been engaged in that
11 process?

12 A. Yes, sir.

13 Q. And how did you determine the ownership in this unit?

14 A. First we had land man Romney Mineral Surface and Royalty Title
15 this property from which they developed run sheets and mineral ownership
16 reports. As we approached the time when we are going to drill the 17-14, we then
17 broadened that into an abstracted title, which was then examined for a drill
18 side title opinion. Once the well was drilled and completed and established as a
19 producer, we expanded that drill title opinion to division title opinion, which
20 followed and broke out all the royalty interest of the royalty owners that are
21 listed on these grade sheets. And that was certified by Alabama Oil and Gas
22 attorney very familiar with the Oil and Gas titles.

23 Q. I tender Mr. Selman as an expert witness for giving testimony.

24 MR. ROGERS: So recognized.

25 Q. Mr. Selman, before we get into the ratifications, were there any

1 parties that own an interest in this proposed unit that were either unknown or
2 you were unable to locate?

3 A. No, sir.

4 Q. All right. You have had an opportunity to examine the unit
5 agreement and the unit operating agreement for the Clear Creek Oil Unit, have
6 you not?

7 A. Yes, I have.

8 Q. The unit agreement is a contract between the operator and the
9 royalty owners and that contract expresses the relationship between those
10 royalty owners and the operator, does it not?

11 A. Yes.

12 Q. And is this a unit agreement that we have presented here today
13 that you have had ratified, does it conform, to the best of your knowledge, to
14 the unit agreements previously approved by this Board and other units?

15 A. Yes, it does.

16 MR. ROGERS: While you are going through it so I can be sort of
17 flipping through the unit agreement, do you have it there so I can -- I would
18 like to be going through it while you are discussing it.

19 Q. Okay. I am just talking about it in general right now. I will
20 come to a place and then I will tell you which section I am looking at.

21 MR. ROGERS: Okay. Thank you.

22 Q. Okay. Mr. Selman, in the unit agreement, we have attached to this
23 unit agreement under Article 2 Exhibits. Exhibit A is a map which shows a
24 boundary line of unit area, correct?

25 A. That is correct.

1 Q. Those are the same boundary lines that
2 Mr. Stewart had in his Exhibits. Exhibit B is a structure map
3 which is the same thing we saw in Mr. Stewart's testimony; is
4 that correct?

5 A. Yes, sir, it is.

6 Q. Exhibit C to the unit agreement is a net
7 Hydrocarbon feet map of the Smackover which we also saw in
8 Mr. Stewart's testimony, correct?

9 A. Yes, sir.

10 Q. And then Exhibit D is a schedule showing the
11 computed tract participation of each tract based on the
12 parameters shown thereon, that is Exhibit 15 that Mr. Stewart
13 testified to, correct?

14 A. Yes, sir.

15 Q. All right. Now, in article three of the unit
16 agreement where we create the effects of the unit. We talk
17 about what we are unitizing here in so far as the rights and
18 the tracts. And in 3.3 of the unit agreement we speak in terms
19 of those parties who do not sign are entitled under the Alabama
20 law to a 1/8th production royalty and then the operator may
21 appropriate 7/8ths of that unitized substance for those parties
22 who do not agree to sign; is that your understanding?

23 A. Yes.

1 Q. Do you really expect to have very many people who
2 will not eventually sign this unit agreement?

3 A. I do not. I expect to get everybody signed.

4 Q. In fact, while we have been sitting here today,
5 we have had -- by e-mail we have had several more come in
6 today, have we not?

7 A. That is correct. Our total number signed right
8 now is 35 royalty owners representing 78.62 percent of the
9 royalty interest.

10 Q. Okay.

11 A. We are expecting another 20 plus in tomorrow.

12 MR. ROGERS: I assume these are all actually
13 signed, these are not where somebody e-mailed you and said they
14 intend to sign it, is that right?

15 THE WITNESS: They are actually signed and
16 notarized, yes, sir.

17 Q. Okay. We will go through that again in just a
18 minute. So what I have handed up as an Exhibit, when we cut
19 this off this morning, I actually represent the total royalty
20 interest of 75.285502 percent, correct?

21 A. Correct.

22 Q. All we are saying is that there are going to be
23 additional parties that will sign in due course they just have

1 not signed as of today. Article five of the unit agreement,
2 Mr. Selman, spells out the tract participation formula, 50
3 percent producible well and 50 percent Hydrocarbon pore volume,
4 correct?

5 A. Correct.

6 Q. All right. Now one thing, again, I don't want to
7 belabor this and go through everything, but one of the things
8 that is provided for in this unit agreement that is somewhat
9 different than the standard unit agreements that have always
10 been approved by this Board is in Article Eleven. Article
11 Eleven pertains to enlargement of the unit area; is that
12 correct?

13 A. Yes.

14 Q. And if we were to enlarge this unit, we would
15 enlarge it in accordance with a provision of Section 9-17-85 in
16 the Code of Alabama that requires 66 and 2/3rds of the working
17 and royalty interest in the area to be added to agreed to a
18 unit enlargement; is that correct?

19 A. Yes, sir.

20 Q. All right. The rest of these contractual
21 agreements are standard provision. We also provide for an
22 effective date of this unit and that would be at 7 o'clock a.m.
23 on the morning, the first day of the month after the month in

1 which the Board enters an order approving this order unit; is
2 that correct?

3 A. Yes, sir.

4 Q. And also we provide for a termination of the
5 unit, and that is when this unit is terminated by at least --
6 by the working and royalty interest owners, and also approved
7 by the Oil and Gas Board, is that correct, after noticing
8 hearing?

9 A. Yes, sir.

10 Q. In other words, the unit operator cannot
11 unilaterally terminate this unit without approval of the Board?

12 A. Correct.

13 Q. All right. Let me take you to the unit operating
14 agreement now. The unit operating agreement, again, is a
15 standard form that this Board has approved in other units, but
16 this has specifications for the proposed operator, Fairway's
17 Exploration and Production, and this is a contract between the
18 working interest owners and -- well, between the working
19 interest owners. The operator or the lead operator has to
20 operate this. How many working interest owners do we have in
21 this proposed unit?

22 A. A total of four.

23 Q. Okay. Who is the largest working interest owner?

1 A. Fairways.

2 Q. What percentage of the working interest does

3 Fairways own?

4 A. 95 percent.

5 Q. Who are the other working interest owners?

6 A. Adams Oil and Gas, Gadsden Oil Company and Curly

7 Pine Oil and Gas.

8 Q. Who is Curly Pines Oil and Gas?

9 A. That is owned by a gentleman named Roger Chapman

10 out of Brewton, Alabama.

11 Q. Does this unit operating agreement specify the

12 terms and conditions under which the unit operator will operate

13 for the working interest owners?

14 A. Yes, sir.

15 Q. Specifying the limits of expenditures that can be

16 made with and without their approval?

17 A. Yes, it does.

18 Q. Okay. Now, I would like to call your attention to

19 the document that I have handed up that is colored with a

20 yellow cover sheet. First of all, you have identified all the

21 working interest owners and you have identified all the royalty

22 owners. Have you or people working for you offered each of

23 those working and royalty interest owners a chance to ratify

1 and/or sign the unit agreement and the unit operating
2 agreement?

3 A. Yes, sir, we have.

4 Q. All right, sir. And the total that we have as of
5 a matter of record that is signed today of the total working
6 interest is what?

7 A. A hundred percent.

8 Q. The total royalty interest as of this filing is
9 how much?

10 A. Well, this filing was 75.285502 percent.

11 Q. All right, sir.

12 A. But we have since received several more.

13 Q. All right. And we will just let the record
14 reflect that we received several more. And let's talk a minute
15 about following this hearing, if the Board sees fit to approve
16 this unit, you are anticipating getting others in, other
17 ratifications in and it will still be your choice, at that
18 point in time, to admit all of those people under the terms of
19 this unit agreement, will it not? In other words, just as if
20 they signed before the units approved by the Board?

21 A. Absolutely.

22 Q. No penalty for them signing late?

23 A. No, sir.

1 Q. You still have people in the field getting signed
2 up as of today?

3 A. Yes. And just as a matter of aside, there are
4 three people that we know of that are out of the country that
5 will take another week or two or three to get signed, but we
6 will give them the same chance.

7 Q. All right, sir. All right. Now, does the unit
8 agreement and unit operating agreement provide for those terms
9 and conditions that are set forth in Section 9-17-83 of the
10 code that requires an adjustment among owners, the working
11 interest owners of their contribution, does it provide for the
12 cost and expenses of investments, those past and prospective,
13 to be shared on the basis of the allocation formula?

14 A. Yes, sir.

15 Q. Okay. And we have designated a unit operator in
16 here and that unit operator by the working interest owners is
17 designated to be Fairways Exploration and Production?

18 A. That is correct.

19 Q. Okay. And we have talked about the time when the
20 unit is to become effective. So basically we covered all the
21 key points along with Mr. Stewart's testimony that is required
22 in 9-17-83; is that your opinion?

23 A. Yes, sir.

1 Q. Is that your opinion, Mr. Stewart?

2 MR. STEWART: That is correct.

3 Q. All right. Now, gentleman, if the Board sees fit
4 to approve this unit as ratified, based on the evidence
5 presented here today, will that protect the correlative rights
6 of all owners in the proposed unit, prevent waste and promote
7 for -- promote orderly development in this Clear Creek Oil
8 Field unit, Mr. Stewart?

9 MR. STEWART: Yes.

10 MR. WATSON: Mr. Selman?

11 MR. SELMAN: Yes, sir.

12 MR. WATSON: Mr. Rogers, I would ask that you
13 receive into the record of this hearing, the Exhibits to the
14 testimony of Mr. Stewart, which would be 1 through 17 and also
15 accept into the record of the hearing the ratifications that I
16 handed up to you that is behind the colored yellow sheet.

17 MR. ROGERS: Let's see, the first two Exhibits
18 were A and B, they are admitted. The next Exhibits were 1
19 through 16, those are admitted. The affidavit of notice is
20 admitted as Exhibits -- we will call the affidavit of notice X,
21 we will call it X and the other one will be Y, for purposes of
22 order. And the unit agreement will be -- you want to call it --

23 MR. WATSON: We actually have 17 Exhibits,

1 Mr. Stewart pointed out.

2 MR. ROGERS: Okay. 17. It says on the front 1
3 through 16. So 1 through 17.

4 MR. WATSON: Yes, sir. You can call these others
5 18 and 19.

6 MR. ROGERS: Unit agreement would be 18, unit
7 operating agreement would be 19 and ratification is 20.

8 MR. WATSON: Yes, sir, that is fine.

9 MR. ROGERS: All of those are admitted as
10 defined.

11 MR. WATSON: I tender my witnesses to you and the
12 Staff for any questions you have.

13 MR. ROGERS: When will y'all commence operation
14 for unit operations?

15 MR. STEWART: Assuming the Board approves this
16 this month, September 1st, which is the day it goes into
17 effect.

18 MR. ROGERS: You will actually start the
19 injection?

20 MR. STEWART: Yes, I believe, if it hasn't
21 already been done so, I believe we have already filed a permit
22 for the conversion -- it hasn't been filed? It will be this
23 week.

1 MR. ROGERS: That is your plan anyway?

2 MR. STEWART: Yes, sir.

3 MR. ROGERS: That is the only question I have.

4 Any other questions?

5 All right. No questions. Anything else,

6 Mr. Watson?

7 MR. WATSON: That is all we have.

8 MR. ROGERS: Staff will review the evidence and

9 make a recommendation to the Board.

10 (The hearing concluded at 1:55 p.m.)

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1 C E R T I F I C A T E

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STATE OF ALABAMA)

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COUNTY OF JEFFERSON)

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5

I hereby certify that the above and foregoing

6

deposition was taken down by me in stenotype and the questions

7

and answers thereto were reduced to typewriting under my

8

supervision; that the foregoing represents a true and correct

9

transcript of the deposition given by said witness upon

10

hearing.

11

I further certify that I am neither of counsel nor

12

of kin to the parties to the action, nor am I in anywise

13

interested in the result of said cause.

14

15

/s/Caila M. Bonds

16

Caila M. Bonds, CCR

17

CCR # 250, Expires 09/30/2014

18

Commissioner for the State of

19

Alabama at Large

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My Commission Expires: 3/29/2018

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