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Exhibit 1 (Item 16)	Area map, Big Canoe Creek Field (Robert Wood)	44	44
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Exhibit 14L (Item 16)	Schematic diagram, Burgess E28-09-30 (Ken Hanby)	44	44
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Exhibit A (Item 16)	Affidavit of notice (William T. Watson)	18 & 59	18 & 59
Exhibit B (Item 16)	3/18/09 letter to Board (Alto Lee Teague III)	59	60
Exhibit C (Item 16)	3/6/09 letter to William T. Watson (S. Marvin Rogers)	59	60
Exhibit A (Items 17 & 18)	Affidavit of notice (John Foster Tyra)	61 & 72	61 & 72
Exhibit B (Items 17 & 18)	Corrected affidavit of notice (John Foster Tyra)	61 & 72	61 & 72

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Exhibit C (Items 17 & 18)	3/18/09 letter to Board (Ray L. Strength)	63	63
Exhibit D (Items 17 & 18)	3/24/09 e-mail to Jay Masingill, cc: John Tyra (Mark Terrell)	63	63
Exhibit 1 (Items 17 & 18)	Field limits East Lambeth Church Field (Lester Aultman)	70	70
Exhibit 2 (Items 17 & 18)	Well location plat, Powell-Rabon 3-11 No. 1, East Lambeth Church Field (Lester Aultman)	70	70
Exhibit 3 (Items 17 & 18)	Type log of Cogle sand, Powell-Rabon 3-11 No. 1, East Lambeth Church Field (Lester Aultman)	70	70
Exhibit 4 (Items 17 & 18)	Structure map, Cogle sand, East Lambeth Church Field (Lester Aultman)	70	70
Exhibit 5 (Items 17 & 18)	Structural cross section A-A' East Lambeth Church Field (Lester Aultman)	70	70
Exhibit 6 (Items 17 & 18)	Production decline curve, Powell-Rabon 3-11 No. 1, East Lambeth Church Field (Michal Spooner)	70	70

EXHIBITS

EXHIBIT NO. (ITEM NO.)	TITLE (TESTIMONY OF)	OFFERED	RECEIVED
Exhibit 7 (Items 17 & 18)	Form OGB-9, Powel-Rabon 3-11 No. 1, East Lambeth Church Field (Michal Spooner)	70	70
Exhibit 8 (Items 17 & 18)	PVT fluid study, Powell-Rabon 3-11 No. 1, East Lambeth Church Field (Michal Spooner)	70	70
Exhibit 9 (Items 17 & 18)	Location map showing lands of Ray L. Strength (John Tyra)	70	70
Exhibit 1 (Item 19)	Affidavit of testimony (Larissa L. Blake)	73	73
Exhibit 1 (Item 20)	Proposed Rule amendment, Rule 400-7-1-.17, Affidavits	74	74
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Exhibit 3 (Item 20)	Proposed rule amendment Rule 400-7-2-.01, Force Integration or Force Pooling	74	74
Exhibit 4 (Item 20)	Proposed rule amendment Rule 7-1-.11, Notice	74	74

March 26, 2009

EXHIBITS  
(Incorporated by Reference)

<u>DESCRIPTION</u>	<u>OFFERED</u>	<u>RECEIVED</u>
Record of Docket hearings for Docket No. 1-31-07-11B and Docket No. 2-6-08-12A	49	50

March 26, 2009

STATE OIL AND GAS BOARD OF ALABAMA

Pell City, Alabama

March 26, 2009

Testimony and proceedings before the State Oil and Gas Board in Regular Session at the St. Clair County Courthouse, 1815 Cogswell Avenue, Pell City, Alabama, pursuant to adjournment, on this the 26<sup>th</sup> day of March, 2009.

BEFORE

Mr. James H. Griggs .....Chairman

Mr. Charles E. Pearson .....Member

STAFF

Dr. Berry H. Tew, Jr. .... Secretary and Supervisor

Mr. Marvin Rogers..... Attorney

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

Mr. Jay H. Masingill .....Assistant Supervisor

Mr. Kirk McQuillan ..... Geologist

APPEARANCES

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	<u>NAME</u>	<u>REPRESENTING</u>
1.	Michael Spooner Ridgeland, MS	Spooner Petroleum Company
2.	John Tyra Tuscaloosa, AL	Spooner Petroleum Company
3.	Les Aultman Jackson, MS	Kelton Company
4.	Tom Watson Tuscaloosa, AL	HighMount Black Warrior Basin
5.	Bob Singleton Tuscaloosa, AL	HighMount Black Warrior Basin
6.	Bob Wood Tuscaloosa, AL	HighMount Black Warrior Basin
7.	Ken Hanby Tuscaloosa, AL	HighMount Black Warrior Basin
8.	Florence & Leon Bothwell P.O. Box 903 Ashville, AL 35953	HighMount Black Warrior Basin
9.	Clarence & Bridget Bothwell 1034 Sand Valley Road Oneonta, AL 35121	HighMount Black Warrior Basin
10.	W. M. O'Neal 132 Hickory St. Childersburg, AL 35041	Self
11.	James & Deborah Hudgins 11010 AL Hwy 23 Ashville, AL 35553	Self

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APPEARANCES

NAME	REPRESENTING
12. Bryan & Leslie Burgess 145 Cross Creek Land Ashville, AL 35953	Self
13. Allen Keith Roberson 360 Greensport Road Ashville, AL	Self
14. Fran Haston 2951 Wynwood Road Trussville, AL 35173	Self
15. Bobby Plunk 605 Richard Arrington Blvd. N. Birmingham, AL 35203	Energen Resources
16. Ben Byerly 604 Richard Arrington Blvd. N. Birmingham, AL 35203	Energy Resources
17. Bill Kirk Tuscaloosa, AL	HighMount Black Warrior Basin
18. Paul Rote 605 Richard Arrington Blvd. N. Birmingham, AL 35203	Energen Resources
19. Dennis Lathem Birmingham, AL	Coalbed Methane Association
20. Juene Cameron Rainbow City, AL	Self
21. Edwina (Davis) Chappell 290 Outback Tr. Sterrett, AL 35147	Self

APPEARANCES

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	NAME	REPRESENTING
22.	Marie (Davis) Skinner 4011 Wellington Way Moody, AL 35004	Self
23.	Gerald Davis Oneonta, AL	Self
24.	Jack Macon 3640Double Bridge Road Steele, AL 35987	Self
25.	Billy Bearden 25680 U.S. Hwy. 411 Ashville, AL 35953	Bearden well
26.	Lee Guthrie Birmingham, Al	Fannie McBryant
27.	Paul Kell P.O. Box 4728, Ashville, AL	Kell Realty
28.	Phillip Meadows Hartselle, AL	Self
29.	Tom Fouts Birmingham, AL	Premier Minerals et al
30.	John Frazier Gadsden, AL	Self
31.	Doug Goodwin Birmingham, AL	Self
32.	Charlie Robinson, Jr. Ashville, AL	Self and others

APPEARANCES

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	NAME	REPRESENTING
33.	C. Denaek Ashville, AL	Self
34.	Charlotte Beaubé P.O. Box 217 Ashville, AL	Self
35.	Terry Burns 11586 Greystone Dr. Tuscaloosa, AL	GeoMet, Inc.
36.	Lyman Lovejoy 11520 U.S. 411 Odenville, AL	Self
37.	Tanya Gee Gadsden, AL	Self
38.	Paul Shoemake Lone Star, Texas	Self
39.	Ed Lasseter 3809 McFarland Blvd. Northport, AL	Petronova
40.	Harvey Bell Mtn. Creek Dr. 99 Creek Dr. Gadsden, AL 35901	Bell family

1 (The hearing was convened at 10:06 a.m. on  
2 Thursday, March 26, 2009, at Pell City, Alabama.)  
3

4 CHAIRMAN GRIGGS: Let the record reflect that the State Oil and Gas Board of  
5 Alabama is now in session. Before we proceed to our agenda today I would like to take this  
6 opportunity to thank the St. Clair County Commission for hosting this meeting and I would like  
7 to particularly thank all of you for attending this meeting today. I realize the weather is bad but  
8 it encourages us when you attend these meetings because we are making a great effort to bring  
9 the operations of the State Oil and Gas Board to various areas throughout the state that are  
10 involved in oil and gas development. We hope that you will have input into this and you will  
11 learn more about the operations of the State Oil and Gas Board. Again, thank you all for  
12 attending today. It is our great pleasure to be in Pell City, Alabama, today. Dr. Tew, have the  
13 items for the March 24 & 26, 2009, meeting been properly noticed?

14 DR. TEW: Members of the Board, the items for the March 24 & 26, 2009, meeting have  
15 been properly noticed. The staff prepared a docket for the Board's March 24 & 26, 2009,  
16 meeting and that docket was admitted into the record at the Hearing Officer meeting on March  
17 24<sup>th</sup>, 2009.  
18

19 AGENDA  
20 STATE OIL AND GAS BOARD OF ALABAMA  
21 BOARD MEETING  
22 MARCH 24 & 26, 2009  
23

24 The State Oil and Gas Board of Alabama will hold its regular hearing at  
25 10:00 a.m. on Tuesday, March 24, 2009, in the Board Room of the State  
26 Oil and Gas Board, Walter B. Jones Hall, University of Alabama Campus,  
27 420 Hackberry Lane, Tuscaloosa, Alabama, and at 10:00 a.m. on  
28 Thursday, March 26, 2009, at the St. Clair County Court, 1815 Cogswell  
29 Avenue, Pell City, Alabama, to consider the following items:  
30

- 31 1. DOCKET NO. 11-4-08-2C  
32 Continued amended petition by SPOONER PETROLEUM COMPANY, a  
33 foreign corporation authorized to do and doing business in the State of  
34 Alabama, requesting the State Oil and Gas Board of Alabama to enter an

1 Order amending Rule 2 of the Special Field Rules for the East Lambeth  
2 Church Field, Escambia County, Alabama, to add and define the Cogle  
3 Sand Oil Pool for said Field and to approve the permanent production unit  
4 for the Powell-Rabon 3-11 No. 1 Well, Permit No. 15711-AB.

5  
6 Petitioner requests that the Cogle Sand Oil Pool in the East Lambeth Church  
7 Field be defined as that interval of the Cogle Sand productive of  
8 hydrocarbons between the interval of 6550 feet and 6570 feet TVD (6576  
9 feet and 6598 feet MD) as indicated on the High Definition Induction Log  
10 for the Powell-Rabon 3-11 No. 1 Well, Permit No. 15711-AB, and all  
11 zones in communication therewith and all productive extensions thereof.  
12 Said pool constitutes a separate and distinct oil producing pool in said Field,  
13 separate and distinct from all other producing pools therein.

14 Petitioner also requests that the drilling unit for the Powell-Rabon 3-11 No. 1  
15 Well, Permit No. 15711-AB, consisting of the East Half of the Northwest  
16 Quarter of the Southwest Quarter and the West Half of the Northeast Quarter  
17 of the Southwest Quarter of Section 3, Township 1 North, Range 8 East,  
18 Escambia County, Alabama, be approved as the permanent production unit  
19 for said well.

20  
21 2. DOCKET NO. 3-24-09-01

22 Petition by DURANGO OPERATING, LLC, a Mississippi limited  
23 liability company, authorized to do business in the State of Alabama,  
24 requesting the State Oil and Gas Board to enter an order extending the  
25 temporarily abandoned status for the following wells all located in the  
26 Foshee Field, Escambia County, Alabama, for a period of one (1) year:

<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
5213	A.T.I.C. 34-9 #1	Section 34, T2N-R8E
5335	Culpepper 34-7 #1	Section 34, T2N-R8E
5167	A.T.I.C. 35-13 #2	Section 35, T2N-R8E
5062	A.T.I.C. 35-14 #1	Section 35, T2N-R8E

33  
34 Said wells are temporarily abandoned. Petitioner is requesting the Board  
35 to classify said wells as temporarily abandoned for a period of one (1) year  
36 in accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of  
37 Alabama Administrative Code because all of the wells have future utility  
38 in Durango Operating, LLC's operations in Foshee Field, Escambia  
39 County, Alabama and should not be plugged.

1 3. DOCKET NO. 3-24-09-02

2 Petition by DURANGO OPERATING, LLC, a Mississippi limited  
3 liability company, authorized to do business in the State of Alabama,  
4 requesting the State Oil and Gas Board to enter an order extending the  
5 temporarily abandoned status for the Cedar Creek Land and Timber Co.  
6 12-9 #1, Permit # 8685, located in Section 12, Township 1 North, Range 8  
7 East in Osaka Field, Escambia County, Alabama, for a period of one (1)  
8 year:

9  
10 Said well is temporarily abandoned. Petitioner is requesting the Board to  
11 classify said well as temporarily abandoned for a period of one (1) year in  
12 accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of  
13 Alabama Administrative Code because said well has future utility in  
14 Durango Operating, LLC's operations in Osaka Field, Escambia County,  
15 Alabama and should not be plugged.

16  
17 4. DOCKET NO. 3-24-09-03

18 Petition by DURANGO OPERATING, LLC, a Mississippi limited  
19 liability company, authorized to do business in the State of Alabama,  
20 requesting the State Oil and Gas Board to enter an order extending the  
21 temporarily abandoned status for the R. E. Loper et al 12-11 #1, Permit #  
22 2885, located in Section 12, Township 1 North, Range 8 East in Pollard  
23 Field, Escambia County, Alabama, for a period of one (1) year:

24  
25 Said well is temporarily abandoned. Petitioner is requesting the Board to  
26 classify said well as temporarily abandoned for a period of one (1) year in  
27 accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of  
28 Alabama Administrative Code because said well has future utility in  
29 Durango Operating, LLC's operations in Pollard Field, Escambia County,  
30 Alabama and should not be plugged.

31  
32 5. DOCKET NO. 3-24-09-04

33 Petition by DURANGO OPERATING, LLC, a Mississippi limited  
34 liability company, authorized to do business in the State of Alabama,  
35 requesting the State Oil and Gas Board to enter an order extending the  
36 temporarily abandoned status for the following wells all located in West  
37 Foshee Field, Escambia County, Alabama, for a period of one (1) year:

1	<u>Permit No.</u>	<u>Well Name</u>	<u>Location</u>
2	5475	A.T.I.C. 33-7 #3	Section 33, T2N-R8E
3	5359	A.T.I.C. 33-8 #1	Section 33, T2N-R8E
4	5528	A.T.I.C. Container 33-3 #1	Section 33, T2N-R8E

5  
6 Said wells are temporarily abandoned. Petitioner is requesting the Board  
7 to classify said wells as temporarily abandoned for a period of one (1) year  
8 in accordance with Rule 400-1-4-.17 of the State Oil and Gas Board of  
9 Alabama Administrative Code because all of the wells have future utility  
10 in Durango Operating, LLC's operations in West Foshee Field, Escambia  
11 County, Alabama and should not be plugged.

12  
13 6. DOCKET NO. 3-24-09-05  
14 Petition by MIDROC OPERATING COMPANY, a foreign corporation  
15 authorized to do and doing business in the State of Alabama, requesting  
16 the State Oil and Gas Board to enter an order amending Rule 1 of the  
17 Special Field Rules for the Little Cedar Creek Field to add the Southeast  
18 Quarter of Section 8 and all of Sections 9, 15, 16, 20, 21, 22, 27, 28 and  
19 29, all in Township 4 North, Range 13 East, Conecuh County, Alabama,  
20 to the field limits of said field.

21  
22 7. DOCKET NO. 3-24-09-06  
23 Petition by ROBINSON'S BEND OPERATING II, LLC, a foreign  
24 corporation, authorized to do and doing business in the State of Alabama,  
25 requesting the State Oil and Gas Board to enter an order reforming the unit  
26 for the Banks 8-13-305 Well, Permit No. 8602-C, from a 40-acre unit  
27 consisting of the Southwest Quarter of the Southwest Quarter of Section 8,  
28 Township 22 South, Range 11 West, Tuscaloosa County, Alabama, in the  
29 Robinson's Bend Coal Degasification Field to an 80-acre unit consisting  
30 of the West Half of the Southwest Quarter of said Section 8.

31  
32 The Banks 8-13-305 Well was permitted and drilled on the existing 40-  
33 acre unit consisting of the Southwest Quarter of the Southwest Quarter of  
34 said Section 8. Upon the request of Torch Operating Company, the Board  
35 issued Order No. 90-545 on November 2, 1990, reforming the 40-acre unit  
36 for said well to an 80-acre unit consisting of the West Half of the  
37 Southwest Quarter of said Section 8. Subsequently, upon the request of  
38 Petitioner, the Board issued Order No. 2008-137 on August 28, 2008,  
39 reforming the 80-acre unit for said well to the existing 40-acre unit.

1 8. DOCKET NO. 3-24-09-07

2 Petition by ROBINSON'S BEND OPERATING II, LLC, a foreign  
3 corporation, authorized to do and doing business in the State of Alabama,  
4 requesting the State Oil and Gas Board to enter an order reforming the unit  
5 for the Maxwell Crossing B11 14-1 #648 Well, Permit No. 8803-C, from a  
6 40-acre unit consisting of the Northeast Quarter of the Northeast Quarter  
7 of Section 14, Township 22 South, Range 11 West, Tuscaloosa County,  
8 Alabama, in the Robinson's Bend Coal Degasification Field to an 80-acre  
9 unit consisting of the North Half of the Northeast Quarter of said Section  
10 14.

11  
12 The Maxwell Crossing B11 14-1 #648 Well was permitted and drilled on  
13 the above-described 80-acre unit consisting of the North Half of the  
14 Northeast Quarter of said Section 14. Upon the request of Petitioner, the  
15 Board issued Order No. 2008-138 on August 28, 2008, reforming the 80-  
16 acre unit for said well to the existing 40-acre unit.

17  
18 9. DOCKET NO. 3-24-09-08

19 Petition by ROBINSON'S BEND OPERATING II, LLC, a foreign  
20 corporation, authorized to do and doing business in the State of Alabama,  
21 requesting the State Oil and Gas Board to enter an order reforming the unit  
22 for the Maxwell Crossing B11 11-3 #626 Well, Permit No. 8185-C, from a  
23 40-acre unit consisting of the Northeast Quarter of the Northwest Quarter  
24 of Section 11, Township 22 South, Range 11 West, Tuscaloosa County,  
25 Alabama, in the Robinson's Bend Coal Degasification Field to an 80-acre  
26 unit consisting of the East Half of the Northwest Quarter of said Section  
27 11.

28  
29 The Maxwell Crossing B11 11-3 #26 Well (later named the Maxwell  
30 Crossing B11 11-3 #626 Well) was permitted and drilled on the existing  
31 40-acre unit consisting of the Northeast Quarter of the Northwest Quarter  
32 of said Section 11. Upon the request of Arco Oil & Gas Company, the  
33 Board issued Order No. 90-237 on July 27, 1990, reforming the 40-acre  
34 unit for said well to an 80-acre unit consisting of the East Half of the  
35 Northwest Quarter of said Section 11. Subsequently, upon the request of  
36 Petitioner, the Board issued Order No. 2008-136 on August 28, 2008,  
37 reforming the 80-acre unit for said well to the existing 40-acre unit.

38  
39 10. DOCKET NO. 3-24-09-09

40 Petition by FOUR STAR OIL & GAS COMPANY, a subsidiary of Chevron  
41 U.S.A. Inc., a foreign corporation authorized to do and doing business in the

1 State of Alabama, requesting the State Oil and Gas Board to enter an order  
2 extending the temporarily abandoned status of the Hatter's Pond Unit 34-10  
3 #1 ST Well, Permit No. 2735-B, located in Section 34, Township 1 South,  
4 Range 1 West, Mobile County, Alabama, in the Hatter's Pond Unit, for one  
5 year, in accordance with Rule 400-1-4-.17(1) of the State Oil and Gas Board  
6 of Alabama Administrative Code.

7  
8 Petitioner previously requested a six-month extension of the temporarily  
9 abandoned status of said well as additional time was needed to evaluate the  
10 future utility of said well, and the Board granted said request by Order No.  
11 2008-125 issued on August 28, 2008. Petitioner has completed its evaluation  
12 of said well and finds that it has future utility and should not be plugged.

13  
14 11. DOCKET NO. 3-24-09-10

15 Petition by PALMER PETROLEUM, INC., a foreign corporation  
16 authorized to do and doing business in the State of Alabama, requesting  
17 the State Oil and Gas Board to enter an order force pooling, with a risk  
18 compensation penalty, all tracts and interests in hydrocarbons produced from  
19 the Smackover Formation in Petitioner's proposed Grantham-Bass 14-10  
20 No. 1 Well to be drilled on a 160-acre wildcat unit consisting of the  
21 Southeast Quarter of Section 14, Township 4 North, Range 14 East,  
22 Covington County, Alabama.

23  
24 This Petition is in accordance with Section 9-17-13, Code of Alabama  
25 (1975), as amended, and Rule 400-7-2-.01 of the State Oil and Gas Board of  
26 Alabama Administrative Code.

27  
28 12. DOCKET NO. 3-24-09-11

29 Petition by CORONADO ALABAMA, LLC, an Alabama limited liability  
30 company, authorized to do and doing business in the State of Alabama,  
31 requesting the State Oil and Gas Board to enter an order extending the  
32 temporarily abandoned status of the Bolden-GSPC 32-1-1 Well, Permit No.  
33 8434-A, located on a 40-acre wildcat drilling unit consisting of the Northeast  
34 Quarter of the Northeast Quarter of Section 32, Township 21 North, Range 4  
35 East, Hale County, Alabama, for one year, in accordance with Rule 400-1-4-  
36 .17(1) of the State Oil and Gas Board of Alabama Administrative Code and  
37 extending the shut-in status of the Burke 29-7 No. 1 Well, Permit No. 3939-  
38 A, located on a 40-acre wildcat drilling unit consisting of the Southwest  
39 Quarter of the Northeast Quarter of Section 29, Township 21 North, Range 4  
40 East, Hale County, Alabama, for one year in accordance with Rule 400-1-4-

1 .17(2) of said State Oil and Gas Board of Alabama Administrative Code  
2 because said wells have future utility and should not be plugged.  
3

4 13. DOCKET NO. 3-24-09-12

5 Petition by VENTURE OIL & GAS, INC., a foreign corporation  
6 authorized to do and doing business in the State of Alabama, requesting  
7 the State Oil and Gas Board of Alabama to enter an order establishing a  
8 new oil field in Monroe County, Alabama, to be named the West Jeddo  
9 Field, or such other name as the Board deems proper, and to adopt Special  
10 Field Rules therefor. The proposed field, as underlain by the Smackover  
11 Oil Pool, consists of the West Half of the Southwest Quarter of Section 28  
12 and the East Half of the Southeast Quarter of Section 29, Township 5  
13 North, Range 5 East, Monroe County, Alabama.  
14

15 The Smackover Oil Pool in said field is defined as those strata productive  
16 of hydrocarbons between the interval of 13,900 feet (MD) (-13,728 feet  
17 Subsea MD) and 13,928 feet (MD) (-13,756 feet Subsea MD) as indicated  
18 on the Triple Combo Log for the Venture Oil & Gas, Inc. – Uriah Land *et*  
19 *al.* No. 1 Well, Permit No. 15673, and all zones in communication  
20 therewith and all productive extensions thereof.  
21

22 Petitioner requests well spacing of 160 acres and also requests the  
23 establishment of allowables for said field. Additionally, Petitioner requests  
24 that the drilling unit for the Venture Oil & Gas, Inc. – Uriah Land *et al.*  
25 No. 1 Well, Permit No. 15673, consisting of the West Half of the  
26 Southwest Quarter of Section 28 and the East Half of the Southeast  
27 Quarter of Section 29, Township 5 North, Range 5 East, be approved as  
28 the production unit for that Well.  
29

30 14. DOCKET NO. 3-24-09-13

31 Petition by HUGHES EASTERN CORPORATION, a foreign corporation  
32 authorized to do and doing business in the State of Alabama, requesting  
33 the State Oil and Gas Board to enter an order approving the exceptional  
34 location of the SE Bluff Oil Unit 17-4 #1 Well, Permit No. 15174, on a  
35 proposed 320-acre unit consisting of the North Half of Section 17,  
36 Township 14 South, Range 13 West, Fayette County, Alabama, as an  
37 exception to Rule 3(b) of the Special Field Rules for the Bluff Field,  
38 Fayette and Lamar Counties, Alabama. Said well was previously  
39 completed in the Carter Sand, as defined in the Special Field Rules for the  
40 Southeast Bluff Upper Carter Oil Unit. Petitioner has now completed said  
41 well in the Gilmer Sand Gas Pool as defined in the said Special Field

1 Rules for the Bluff Field, on the proposed 320-acre unit at a location 670  
2 feet from the West line and 350 feet from the North line of said Section  
3 17. Said Rule 3(b) of the Special Field Rules for the Bluff Field requires  
4 that wells drilled in said Field be located at least 660 feet from every  
5 exterior boundary of a 320-acre unit and the proposed location will be an  
6 exception to said Rule.  
7

8 15. DOCKET NO. 3-24-09-14  
9 Petition by UNION OIL COMPANY OF CALIFORNIA, a foreign  
10 corporation authorized to do and doing business in the State of Alabama,  
11 requesting the State Oil and Gas Board to enter an order extending the  
12 temporarily abandoned status of the following wells, all located in Mobile  
13 County, Alabama, in the Chunchula Fieldwide Unit, for a period of one  
14 year, in accordance with Rule 400-1-4-.17 (1) of the State Oil and Gas  
15 Board of Alabama Administrative Code because said wells have future  
16 utility and should not be plugged:  
17

<u>Well Name</u>	<u>Permit No.</u>	<u>Location</u>
International Paper Co. 14-6 #1	2085	Sec. 14-T1S-R2W
E.T. Stapleton 27-7 #1	2120	Sec. 27-T1S-R2W
George Radcliff, et al. 19-11 #2	2295	Sec. 19-T1S-R1W
E.M. Maddox 26-7 #1	2310	Sec. 26-T1S-R2W.

24  
25 16. DOCKET NO. 3-24-09-15  
26 Petition by HIGHMOUNT BLACK WARRIOR BASIN LLC, a foreign  
27 limited liability company, authorized to do and doing business in the State  
28 of Alabama, requesting the State Oil and Gas Board to enter an order  
29 establishing production units and amending Rules 1, 2, 3, 4 and 5A of the  
30 Special Field Rules for the Big Canoe Creek Field, St. Clair County,  
31 Alabama. Petitioner proposes to amend Rule 1 (Purpose) to provide for  
32 the establishment of drilling and production units; to amend Rule 2 (Field  
33 Limits) to delete Sections 24, 25 and 36 in Township 13 South, Range 3  
34 East, and Sections 1 and 12 in Township 14 South, Range 3 East, and  
35 Sections 1 through 11 in Township 14 South, Range 4 East, all in St. Clair  
36 County, Alabama; to amend Rule 3 (Gas Pool Defined) to define the  
37 Conasauga Shale Gas Pool as that interval of the Conasauga Formation  
38 productive of hydrocarbons between 1,956 feet and 8,971 feet as indicated  
39 on the Array Induction-Epithermal Neutron Gamma Ray – Three  
40 Lithology Density Log of the Burgess E28-09-30 Well, Permit No. 15073,  
41 including those strata productive of hydrocarbons which can be correlated

1 therewith, and all zones in communication therewith and all productive  
2 extensions thereof; to amend Rule 4 (Spacing of Gas Wells) to establish  
3 the existing 320-acre drilling units as production units in said Field, and to  
4 allow the distribution of all escrowed production royalties to persons  
5 legally entitled thereto in the established 320-acre production units in said  
6 Field; and to amend Rule 5A (Drilling and Completion Operations) to  
7 provide that surface casing shall be set and tested in accordance with Rule  
8 400-1-4-.09 (2)(a) of the State Oil and Gas Board of Alabama  
9 Administrative Code.

10  
11 That Petitioner files this request in compliance with Board Order No.  
12 2008-53 issued on April 11, 2008, which gave Petitioner until March 16,  
13 2009, to petition the Board for unitization, establishment of production  
14 units or such other action as the Board may deem appropriate.

15  
16 17. DOCKET NO. 3-24-09-16

17 Petition by SPOONER PETROLEUM COMPANY, INC., a foreign  
18 corporation authorized to do and doing business in the State of Alabama,  
19 requesting the State Oil and Gas Board of Alabama to enter an Order  
20 amending Rules 1, 2 and 3 of the Special Field Rules for the East Lambeth  
21 Church Field, Escambia County, Alabama, to add the Northeast Quarter of  
22 Section 3, Township 1 North, Range 8 East to the field limits of said field,  
23 to add and define the Cogle Sand Oil Pool for said field and to provide for  
24 160-acre well spacing for the Cogle Sand Oil Pool.

25  
26 Petitioner requests that the Cogle Sand Oil Pool in the East Lambeth Church  
27 Field be defined as that interval of the Cogle Sand productive of  
28 hydrocarbons between the interval of 6550 feet and 6570 feet TVD (6576  
29 feet and 6598 feet MD) as indicated on the High Definition Induction Log  
30 for the Powell-Rabon 3-11 No. 1 Well, Permit No. 15711-AB, and all  
31 zones in communication therewith and all productive extensions thereof.  
32 Said pool constitutes a separate and distinct oil producing pool in said field,  
33 separate and distinct from all other producing pools therein.

34  
35 This Petition is filed as a companion to a Petition requesting that the 40-  
36 acre drilling unit for the Powell-Rabon 3-11 No. 1 Well, Permit No.  
37 15711-AB, be reformed to a 157.59-acre production unit.

38  
39 18. DOCKET NO. 3-24-09-17

40 Petition by SPOONER PETROLEUM COMPANY, INC., a foreign  
41 corporation authorized to do and doing business in the State of Alabama,

1 requesting the State Oil and Gas Board of Alabama to enter an Order  
2 reforming the 40-acre drilling unit for the Powell-Rabon 3-11 No. 1 Well,  
3 Permit No. 15711-AB, to a 157.59-acre production unit.  
4

5 Petitioner requests that the 40-acre drilling unit for said Powell-Rabon 3-11  
6 No. 1 Well, Permit No. 15711-AB, consisting of the East Half of the  
7 Northwest Quarter of the Southwest Quarter and the West Half of the  
8 Northeast Quarter of the Southwest Quarter of Section 3, Township 1  
9 North, Range 8 East, Escambia County, Alabama, be reformed to a  
10 157.59-acre production unit consisting of the North Half of the Southwest  
11 Quarter, the West Half of the West Half of the Northwest Quarter of the  
12 Southeast Quarter, the South Half of the Southwest Quarter of the  
13 Northwest Quarter, the South Half of the Southeast Quarter of the  
14 Northwest Quarter, the West Half of the West Half of the South Half of  
15 the Southwest Quarter of the Northeast Quarter, the South Half of the  
16 North Half of the Southwest Quarter of the Northwest Quarter, the South  
17 Half of the North Half of the Southeast Quarter of the Northwest Quarter  
18 and the Southwest Quarter of the Northwest Quarter of the Southwest  
19 Quarter of the Northeast Quarter of Section 3, Township 1 North, Range 8  
20 East, Escambia County, Alabama.  
21

22 This Petition is filed as a companion to a Petition requesting the Board to  
23 amend Rules 1, 2 and 3 of the Special Field Rules of the East Lambeth  
24 Church Field to include the Northeast Quarter of Section 3, Township 1  
25 North, Range 8 East to the field limits, to add and define the Cogle Sand  
26 Oil Pool for said field and to provide for well spacing for the Cogle Sand  
27 Oil Pool.  
28

29 19. DOCKET NO. 4-30-03-7

30 Continued MOTION BY THE STATE OIL AND GAS BOARD OF  
31 ALABAMA to consider issuing an order for Vintage Petroleum, Inc.,  
32 Hunt Refining Company, and Pruet Production Company to clean up and  
33 remove the oil on the lands of Lois Ezell and the adjoining pipeline right-  
34 of-way located in Section 29, Township 11 North, Range 3 West, Choctaw  
35 County, Alabama. Vintage Petroleum, Inc., operates the Ezell 29-5 Well,  
36 Permit No. 1844, on the lands of Lois Ezell, and certain oil pipelines on  
37 the pipeline right-of-way adjoining the lands of Lois Ezell. Hunt Oil  
38 Company operates an oil pipeline on the pipeline right-of-way adjoining  
39 the lands of Lois Ezell. Pruet Production Company operates a natural gas  
40 pipeline and a salt-water pipeline on the pipeline right-of-way adjoining  
41 the lands of Lois Ezell. The jurisdiction and authority of the Board is set

1           forth in Section 9-17-1 et seq. of the Code of Alabama (1975), as  
2           amended.

3  
4           20. DOCKET NO. 3-24-09-18

5           MOTION BY THE STATE OIL AND GAS BOARD OF ALABAMA to  
6           amend (1) Rule 400-7-1-.05, Rule 400-7-1-.11, Rule 400-7-1-.17 and Rule  
7           400-7-2-.01 of the State Oil and Gas Board of Alabama Administrative  
8           Code to provide that (a) Notices of Petitions shall be filed twenty-five (25)  
9           days prior to the hearing of the Petition, (b) Petitions shall be filed twenty-  
10          five (25) days prior to the hearing of the Petition, and (c) exhibits shall be  
11          filed at least twenty (20) days prior to the hearing. Further, in this Motion  
12          the Board proposes to address the procedure for filing and publishing  
13          notices of petitions.

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

26  
27          DR. TEW: Mr. Marvin Rogers acting as Hearing Officer and the staff heard various  
28          items at the Hearing Officer meeting on March 24, 2009. At this time Mr. Rogers will make his  
29          report to the Board.

30          MR. ROGERS: Chairman Griggs and Mr. Pearson, I have a written report of the items  
31          heard by the Hearing Officer and the staff on Tuesday, March 24, 2009. Copies of that report are  
32          available for members of the public to review and study. I submit this Hearing Officer report to  
33          the Board for approval by the Board.

34          CHAIRMAN GRIGGS: Do we have a motion for approval of the Hearing Officer's  
35          report?

1 MR. PEARSON: We do, Mr. Chairman. I move that we adopt the recommendations of  
2 the Hearing Officer as stated in the report.

3 CHAIRMAN GRIGGS: Thank you, Mr. Pearson. We have a motion. I second that  
4 motion. All in favor say "aye."

5 (Board members Griggs and Pearson voted "aye")

6 CHAIRMAN GRIGGS: The "ayes" have it. The report is admitted into the record and is  
7 approved.

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

10 MR. ROGERS: Thank you sir.

11 DR. TEW: The staff would recommend approval of the minutes of the following  
12 meetings: February 2, 2009, Hearing Officer meeting and February 4, 2009, regular Board  
13 meeting.

14 MR. PEARSON: I move that we approve those minutes, Mr. Chairman.

15 CHAIRMAN GRIGGS: We have a motion. I second that motion. All in favor say  
16 "aye."

17 (Board members Griggs and Pearson voted "aye")

18 CHAIRMAN GRIGGS: "Ayes" have it. Both of those meeting minutes are approved.  
19 Dr. Tew.

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

22 MR. ROGERS: Mr. Chairman, the first item is Item 11, Docket No. 3-24-09-10A,  
23 petition by Palmer Petroleum, Inc. The Board has continued that item.

24 CHAIRMAN GRIGGS: That item is continued until the next Oil and Gas Board  
25 meeting.

26 MR. ROGERS: The next item Mr. Chairman and Mr. Pearson is Item 16, Docket No. 3-  
27 24-09-15B, petition by HighMount Black Warrior Basin, LLC, requesting the Board to establish

1 production units and amend certain rules of the Special Field Rules for the Big Canoe Creek  
2 Field, St. Clair County, Alabama.

3 CHAIRMAN GRIGGS: Before I ask you to proceed, Mr. Watson, can I ask everyone if  
4 you will just raise your hand if you are interested in this petition in any way. We would like to  
5 get an idea of who all is here to hear this petition. Thank you. Mr. Watson.

6 MR. WATSON: Mr. Chairman, I have prefiled an affidavit of notice in this matter and  
7 would ask that it be included in the record of today's hearing.

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

9 (Whereupon, the affidavit was received in evidence)

10 MR. WATSON: I have four witnesses and would like to have them sworn in at this time.

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

12 MR. SINGLETON: Robert Singleton, Tuscaloosa, Alabama.

13 MR. WOOD: Robert Wood, Tuscaloosa, Alabama.

14 MR. HANBY: Ken Hanby, Northport, Alabama.

15 MR. VODICA: Vince Vodicka, Houston, Texas.

16 (Witnesses were sworn by Mr. Rogers)

17 MR. WATSON: Mr. Chairman, it may be helpful if I make a brief opening statement as  
18 to what we are here to do today and what we plan to present to the Board, if that would be  
19 appropriate.

20 CHAIRMAN GRIGGS: Go ahead, Mr. Watson.

21 MR. WATSON: On February 16, 2007, the Board established the Big Canoe Creek Field  
22 consisting of 40 sections of land containing approximately 25,600 acres. The Board also  
23 established 320-acre drilling units in that field. The discovery of shale gas in the Conasauga  
24 Formation created a great deal of interest in this part of St. Clair County. Dominion Black  
25 Warrior Basin was the operator of the field at the time of its discovery in 2005 and operated the  
26 field until 2007 when it sold its assets in the field to the current operator, HighMount Black  
27 Warrior Basin, LLC. Many of the officers and employees of Dominion remained with  
28 HighMount and these people are still involved in the operation of the Big Canoe Creek Field

1 today. News organizations and industry publications were optimistic about the future of this new  
2 shale gas discovery. Natural gas prices were high and we all looked forward to great prosperity  
3 for everyone involved. However, much has changed since the discovery of this field. As you  
4 will hear today from the HighMount witnesses, 16 wells have been drilled in the Big Canoe  
5 Creek Field and twelve of those wells are producing. Three of the wells have been classified as  
6 temporarily abandoned and one of the wells we will request that it be classified as temporarily  
7 abandoned for the total of the 16 wells. These four wells that will eventually be classified as  
8 temporarily abandoned have future utility. They are classified as temporarily abandoned because  
9 they do have future utility and the expert witnesses today will talk about what is planned for  
10 those wells. This company has spent tens of millions of dollars in this field with the expectation  
11 of significant volumes of gas. That has not been the case. The volume of gas produced by the  
12 twelve wells has been low and disappointing. As disappointing as the results have been, it is not  
13 unusual in a conventional or unconventional gas field. A good example of what I am talking  
14 about can be seen on the screen in the Holt Coal Degasification Field in Tuscaloosa County.  
15 This slide represents the first 65 months of production in this unconventional coal degasification  
16 field where production was in the range of 100 Mcf per day to 3,000 Mcf per month. Starting  
17 here to the end, that's about an average. With the advent of new technology and with the staying  
18 power of the operator in this field, this insert shows this same line--in this interval new  
19 technology was developed, new techniques were developed for this unconventional gas field and  
20 you can see how the production curve increased. Through August 2008 we had a cumulative  
21 production out of this field of 53.3 billion cubic feet of gas. If this field had been judged by the  
22 first 65 months of production it would, as a fisherman would say, be a throwback. Now, we have  
23 superimposed on this slide the first 45 or so months of production at the Big Canoe Creek Field.  
24 This blue line represents production curves in the Big Canoe Creek. You can see how closely it  
25 resembles the early history in the Holt Coal Degasification Field. This is just another reason for  
26 this company not to give up on the Big Canoe Creek Field. The other shale degasification fields  
27 in this country, one of the more prolific fields today, the Barnett shale in the Ft. Worth, Texas,  
28 area, took about 18 years before that field became a good commercial producer. That was due to

1 the invention of new technology, new techniques, and the staying power of the operators in that  
2 field to try to make it a good gas producing field. The Big Canoe Creek Field is still in its  
3 infancy and the production curve indicates that. The important message for the Board and for  
4 those in attendance today is that HighMount intends to continue its operations in this field. This  
5 company will continue to search for the technology and techniques necessary to make this field a  
6 significant gas producing field in the state. Another thing that has happened since the advent of  
7 this field or since the discovery of this field has been gas prices. Gas prices--these are Warrior  
8 Basin spot gas prices-- have dramatically changed since we first came to St. Clair County. This  
9 chart gives you from January of 2008 through March of 2009. For those who can't read this,  
10 these are the dollars and this is the time. We had a gas peak in this field in July of 2008 of  
11 \$13.17 per thousand Mcf. In February when we had our last hearing on this field gas prices were  
12 \$8.19. The current price of gas in March of 2009 is \$4.07. There has been a tremendous change  
13 in the economic situation since this field was discovered. Today we are asking for five different  
14 things from the Board. First, we are asking the Board to amend the field limits to delete certain  
15 sections from the field. We initially started out with 40 sections of land that were covered by the  
16 field rules. We are asking that 16 sections be removed from the field leaving the 24 sections that  
17 have been developed or will be developed, we are hoping, in the near term. I should say this  
18 about the deletion of those 16 sections from the field limits. By doing that we are saying that  
19 given the gas prices and the current inability to produce the volumes of gas that we expected  
20 from this field, we no longer have a need to hold those sections. However, that does not mean  
21 that those sections cannot be developed by this company or by other companies. In fact, as you  
22 will see from our exhibits, in the sections immediately adjacent to the 24 sections that we  
23 propose for the new field limits, any development in those sections of land would be under a  
24 productive extension theory of the Special Field Rules, meaning they would be on 320-acre  
25 units. We really are simply trying to say to the Board we are going to stay the course. We are  
26 going to try to develop what we have but these outlying areas in the field, we have no immediate  
27 plans because of gas prices and the lack of technology to try to develop those outlying sections  
28 of land. In addition to asking that the field limits be amended so as to take out 16 sections, we

1 are asking the Board to redefine the Conasauga Gas Pool on the basis of the Burgess 28-09-30  
2 well. That is a well that was drilled deeper into the Conasauga than any of our other wells and  
3 gives us a better marker of the Conagausa Gas Pool. We have now found that is probably the  
4 maximum depth that we will be drilling in this area, so we are asking the Board to recognize that  
5 type log as the new type log for the field. Third, since we are not drilling these wells or not  
6 drilling any wells right now and these current 12 wells are producing we are asking the Board to  
7 declare these 320-acre drilling units as production units and in so doing we are asking the Board  
8 to authorize us to distribute the royalties that have been escrowed since this field was discovered  
9 to those parties legally entitled to receive the royalties. If the Board sees fit to allow us to  
10 distribute the escrowed royalties we would then be making royalty payments every month  
11 thereafter to those owners. We are also asking as a fifth measure for the Board to amend the  
12 Special Field Rules as it relates to Rule 5A. That Rule 5A deals with the surface casing that we  
13 are running in these wells. Our purpose for amending that rule is to better recognize what we  
14 have encountered in the drilling of these 16 wells. Our proposed rule that we would amend into  
15 these Special Field Rules is designed to protect the freshwater that is encountered. There has  
16 been very little freshwater encountered and in the drilling of these wells we think the revised rule  
17 gives us a better rule to protect those groundwater resources. I have four witnesses today who  
18 are going to present testimony in support of the petition that I have just described amending these  
19 field rules. You have copies of those exhibits in front of you and we have some extra copies up  
20 at the front table. Mr. Chairman, with your permission we are going to present this through a  
21 slide presentation so that everyone in the room can follow along as the witnesses go through the  
22 various exhibits.

23 CHAIRMAN GRIGGS: Mr. Watson, we have hard copies of all the slides that can be  
24 incorporated into the record?

25 MR. WATSON: Yes you do, Mr. Chairman. A signed copy by the witnesses has been  
26 handed up to the Board's attorney for inclusion in this record today. I will ask for that at the end  
27 of the presentation.

1 CHAIRMAN GRIGGS: We will do that at the appropriate time. I just wanted to be sure  
2 that it was in the record.

3 MR. WATSON: Mr. Chairman, we have taken some of the slides that will be in your  
4 permanent record and for emphasis in describing some of these things we may have broken one  
5 of the exhibits into two parts, just for emphasis in the slide presentation.

6 CHAIRMAN GRIGGS: I understand.

7 MR. WATSON: With that, I am ready to proceed and call my first witness. My first  
8 witness is Bob Wood who is a petroleum geologist. Mr. Wood has appeared before you on  
9 numerous occasions and hearings. Mr. Wood, I'll ask you if you are familiar with the petition on  
10 file here today by HighMount?

11 MR. WOOD: I am.

12 MR. WATSON: Have you prepared exhibits in support of the petition today?

13 MR. WOOD: I have.

14 MR. WATSON: Mr. Chairman, I tender him as an expert petroleum geologist for giving  
15 testimony in this item.

16 CHAIRMAN GRIGGS: Mr. Wood is so recognized.

17 MR. WATSON: Before Mr. Wood starts his testimony on the field let me describe the  
18 function of Special Field Rules for those who may not be familiar with that. Special Field Rules  
19 are established by the Board for a specific area in the state that gives an operator directive as to  
20 how wells are to be drilled and completed, the spacing for those wells, and allowables where  
21 those are appropriate, that is how much can be produced. This field is an unconventional gas  
22 field. As the testimony will show and Mr. Wood will describe for you, there are no finite limits  
23 to this gas reservoir. It extends well beyond these field limits. What we have carved out for the  
24 Special Field Rules is an area of the field, initially the 40 sections that I first mentioned, that we  
25 intended to explore. Our testimony when we first discovered this field was we expected to drill  
26 all four corners of the field area. The intervening circumstances such as the inability to unlock  
27 the gas that is trapped in the Conasauga Shale and the declining gas prices have caused us to  
28 come in and concentrate on the area of the field that has been developed to date. It is within this

1 proposed new field area that the Special Field Rules that we are asking today to be amended  
2 would apply.

3 ROBERT WOOD

4 Appearing as a witness on behalf of Petitioner, HighMount Black Warrior Basin, testified  
5 as follows:

6 DIRECT EXAMINATION

7 Questions by Mr. Watson:

8 Q. Mr. Wood, would you describe the information shown on our first exhibit, please, sir.

9 A. Yes. Exhibit 1 is our area map of the Big Canoe Creek Field. The original field limit as  
10 established in 2007 is the area outlined in blue. Today we are proposing to redefine the  
11 field limits to the area outlined, the red and white rectangular area. Each of the squares is  
12 a governmental regular section and is shown on this exhibit and numbered. It also shows  
13 the townships and ranges. Each one of these squares is approximately 640 acres or one  
14 square mile. This exhibit also shows the wells that have been drilled to date. They are  
15 colored coded on this slide based on the year that they were drilled. The discovery well  
16 for the field was the Dawson 34-03-01 well. I am going to go to the next slide which  
17 zooms in on the area where the wells have been drilled. You can see the discovery well  
18 in a tan color in the West Half of Section 34. It was drilled immediately west of an old  
19 Amoco J. J. Young well, the 34-2 well. Pan Oak in the 1980's also drilled an offset well  
20 to that. In 2006 Dominion drilled seven wells and those are shown in the red color. In  
21 2007 six additional wells were drilled and those are shown in the blue color on this  
22 exhibit. In 2008 Dominion or HighMount drilled two gas wells, the Hall and the  
23 Bearden. In addition, they drilled a monitor well which we will discuss later. This was  
24 microseismic monitoring in order to determine the extent and the nature of the hydraulic  
25 fracturing that was occurring in the Hall well. Also in 2008 HighMount worked on  
26 completions, stimulating, fracing and completing three wells, the Hall, the Dawson and  
27 the Oakes well.

- 1 Q. Go back to the first slide just a minute, Mr. Wood. I mentioned earlier in amending the  
2 Special Field Rules and taking these sections out of the field that should another operator  
3 or indeed should HighMount elect to drill additional wells in the sections that are  
4 currently removed from the field under the productive extension theory that the Board  
5 ascribes to that those units would have to be drilled in accordance with the Special Field  
6 Rules inside the field area. From a practical standpoint these sections immediately  
7 adjacent to the field, though they would be excluded from the field per our petition,  
8 would still be developed according to the Special Field Rules. This row of sections along  
9 the bottom of the slide could be developed on either a smaller spacing or whatever  
10 anyone chose to petition the Board for under the statewide rules. All right, Mr. Wood.
- 11 A. I would also like to point out on this exhibit that the bottom hole locations are shown in  
12 proximity to each surface location. The large colored circle is the surface location.  
13 Particularly for the new Board members, this field had an inherent problem of the drill  
14 stem walking, so the well wasn't drilled vertically. It walked away and as you can see in  
15 each of these it was walking to the northwest. We have other exhibits that will  
16 demonstrate the occurrence of that. This third slide is just a detail of Exhibit No. 1 so  
17 that you can actually see those. Those are the bottom hole locations and their proximity  
18 to where the surface location is. Because these wells were walking, it made it impossible  
19 for the drill bit to stay on a 40-acre wildcat unit. In 2007 the Board approved in the  
20 Special Field Rules for this field 320-acre spacing for drilling units. Those units are  
21 shown highlighted in green in each 320-acre drilling unit on this exhibit.
- 22 Q. Let's go to your second exhibit, Mr. Wood.
- 23 A. Exhibit No. 2 is basically a copy of the same map but it has been color posted differently.  
24 It shows the status of each of the wells. On the official paper copy of the exhibit that is in  
25 the exhibit booklet and will be admitted into evidence, it is not color coded but for  
26 purposes of presentation I posted the status of the wells in various colors. The red wells  
27 are each of the twelve producing wells as Mr. Watson mentioned earlier in his opening  
28 statement. Those wells are producing gas into a gas sales line. There are three wells that

1 are temporarily abandoned that are not producing at this time, the Sloss, the West and the  
2 Bjornson. Those wells are on temporary abandonment status until September 11, 2009.  
3 In addition, the BlackStone Minerals well had difficulty in completing and cementing the  
4 casing. That well is waiting on plans and orders by management with HighMount and  
5 soon we will request a temporary abandonment status for the BlackStone Minerals well.  
6 The compressor site is located here. There is a sales line that it goes to for marketing and  
7 removing the gas off site.

8 Q. Mr. Wood, you have described these twelve producing wells. We are asking that the  
9 Board declare those units to be production units. Is that correct?

10 A. That is correct.

11 Q. The drilling units were established to get these wells down. They have been on  
12 production, some for longer than others, but the fact that they are producing and not  
13 drilling gives us the basis for requesting that they be declared production units. Is that  
14 correct?

15 A. That is correct. It is my understanding there is a new Statute that has been put into effect  
16 that defines what a drilling unit is. These wells are no longer drilling. They are  
17 producing gas. They are draining gas. They are accumulating royalties in escrow.  
18 Today we are asking that these units be made production units based on the new  
19 regulation.

20 Q. To give Mr. Griggs and Mr. Pearson a quick overview as to how we initially set up this  
21 field we have a series of exhibits that were presented at the first hearing of the Board to  
22 establish this field. With your indulgence we will run through those. Some of those in  
23 the audience who have an interest here may or may not have attended the first hearing.  
24 Mr. Wood, give us the geological setting for the Big Canoe Creek Field and how we have  
25 accumulated some information since we started drilling wells here?

26 A. Yes. If I could ask the Board members to follow on the screen. I know it is inconvenient  
27 for you to turn around there but Exhibit No. 2A is Exhibit 3 from Docket No. 1-31-07-11.  
28 That is the hearing where the Big Canoe Creek Field was established. This is a geologic

1 map published by the Alabama Geological Survey. It shows the surface geology in the  
2 vicinity of this part of St. Clair County. The town of Ashville is here. Interstate 1-59  
3 between Birmingham and Gadsden cuts across the northwest corner of the field. You can  
4 see various outcrops of different strata. This is all part of the Appalachian Mountain  
5 system as it extends from the Chattanooga area and north Georgia into Birmingham and  
6 plunges underneath the surface in the Tuscaloosa area. The outcrop of the Conasauga  
7 Shale is mapped by the Alabama Geological Survey to the county line in this area. It is  
8 the area that is shown highlighted in the pink and white diagonal dashed line. It is  
9 present at the ground surface due to thrust faults that have pushed it considerable  
10 distances in the subsurface and with erosion and the present-day geology it extends  
11 across a very broad valley. Each one of these squares is a mile so there is a large area  
12 where this reservoir is at the ground surface. Each of us have practiced for a long time in  
13 the oil and gas business and it is very unusual for the reservoir to extend from the grass  
14 roots to the subsurface but that is what this map shows. It also shows in 2007 the well  
15 that we used for the defined interval, the Newman well, located right there and some of  
16 the other wells in other formations. Here is cross section A-A' which will be a  
17 subsequent exhibit. Exhibit 2B is a structure map on top of the Conasauga Shale Gas  
18 Pool. This is a marker that occurred near the top of the Conasauga that we used for  
19 mapping the structure. The formation is extremely thick because it has been pushed up  
20 on top of itself in many thrust faults. In fact, this area has been called a mushwad which  
21 is pretty descriptive of what has happened here with accumulating so much shale. The  
22 outcrop of the mapping horizon is this dashed line. That is where the marker in the  
23 subsurface from these wells occurs at the ground surface. Actually these dashed lines are  
24 where that would be above the ground level. It is highly unusual for an oil and gas  
25 structure map but this is striking parallel to the Appalachian system and it is showing  
26 cross section A-A'. If you note in 2007 some of these wells were on 40-acre units. The  
27 problem at that time is that the drilling had to be terminated because the bits were

1 walking off the 40-acre units and these were some proposed reformations for 320-acre  
2 units that were happening at that time.

3 Q. Let's go to your cross section A-A' and describe that briefly for us, Mr. Wood.

4 A. Cross section A-A' shows what was depicted in the two previous exhibits. This would be  
5 like a slice of the earth. If you cut an apple in half you would be seeing the core. Here is  
6 the ground surface. You can see some of the ridges based on the topography. These are  
7 the ridges that parallel the Appalachian system. Here is the mapping horizon that was the  
8 exhibit just before. This is where it was mapped in the subsurface and then projected  
9 above the ground surface at that point. All of the area in brown is the Conasauga Shale.  
10 The basis for this exhibit was a publication by the Alabama Geological Survey authored  
11 by Dr. Jack Pashin. It has been amended to include some of the drilling information that  
12 we had and we have also posted additional information on here. The basis is the ground  
13 surface, the information that has been collected, and the outcrop information of various  
14 formations. As you can see in the middle of this area of the Conasauga Shale there are  
15 the other rocks, the Mississippian through the Knox group. There is a pie-shaped  
16 segment there which also forms some of the ridges in this area. The Conasauga Shale,  
17 these are thrust faults. It has been pushed and piled up on top of itself in here to give us  
18 this very thick accumulation. The original well drilled in here, the J.J. Young well  
19 originally drilled by Amoco, extended down below 9,000 feet. You can see various  
20 depth shale gas wells in the field boundary area as shown and also where it is positioned  
21 on this cross section. Today we are asking to amend the Special Field Rules to include  
22 the definition of the Conasauga in the Burgess well. It was originally used as this  
23 Newman well. As you can see the Burgess well drilled deeper. The definition is the  
24 Conasauga Shale that occurs in the Newman well and all Conasauga Shale that would  
25 correlate therewith. So, it is all defined but simply because we had a deeper well, a  
26 deeper penetration, we thought that it would be best to change the defined interval.  
27 Originally we had wanted to use the J.J. Young well but since it was not a well that

1 produced gas it was thought it would be best to use a gas producing well for defining the  
2 interval.

3 Q. All right, Mr. Wood. Your next exhibit will describe the unconventional nature of this  
4 reservoir and how we are able to liberate the gas from this shale. Go through that for us,  
5 please.

6 A. This is an unconventional reservoir in that the shale is typically a trapping mechanism for  
7 oil and gas that occurs in limestone or dolomite or in sandstone, typical conventional  
8 reservoirs. HighMount is drilling these wells into shale that has a significant level of  
9 organic carbon. It was the source for oil and gas. Typically shale like this is a source  
10 rock for gas that we would see in a conventional reservoir. The gas would migrate out of  
11 the shale over geologic time and be accumulated in a trap somewhere else. The concept  
12 of getting gas out of a shale is problematic in that shale's inherently have low  
13 permeability. As Mr. Hanby said, that would be the trapping mechanism for a typical  
14 reservoir. What we have in an organic rich deposit like this is gas that is occluded in the  
15 kerogen. Kerogen is simply the mineralogical name for the organic carbon. That is the  
16 source for the gas. Gas over geologic time has escaped out of that and is included in the  
17 microporosity in the shale and also in fractures. In order to be a successful shale play it is  
18 not good enough just for it to be a gas shale, it must be a fractured gas shale. We know  
19 that this Conasauga Formation does have fractures and the fractures are yielding gas to  
20 wellbores. This is quite different. It is more akin to the coalbed methane where gas is  
21 trapped in the matrix of coal and as you have the lowering pressure it is the occluded gas  
22 in the matrix of coal that is allowed to escape and migrate toward a well. Here we are  
23 producing gas that is in mostly microporosity and in fractures and hopefully the occluded  
24 gas will escape from the kerogen and migrate to wellbores as well. The next slide is not  
25 an exhibit that is being submitted for evidence but this is a demonstrative aid because we  
26 have talked about the drilling problems that we had in drilling wells in the Canoe  
27 Mountain area. Typically in oil and gas we would have basically horizontal strata. As  
28 we extend a well down to whatever total depth the drill bit typically stays pretty much

1 underneath the surface location. In this instance the strata is not horizontal. In fact, it is  
2 quite angular. This would be a tilting. A geologist would call this dip. It would be sort  
3 of like the pitch or the dip of a roof on a house, all the strata is dipping. It is much more  
4 complicated than what we are showing here. What we have found when we have drilled  
5 wells in the Conasauga Shale is that our drill bit begins to walk up dip and in many  
6 instances it takes significantly diverse turns. The bottom hole location winds up being in  
7 some place that is not immediately close to the surface location. This is the problem that  
8 we had in drilling. We had trouble keeping the drill bit on a 40-acre unit which is why  
9 the Board approved in 2007, 320-acre spacing for drilling wells in this field.

10 Q. Now, let's go to your next exhibit, Mr. Wood. This is a graph of all the wells that have  
11 been drilled including the monitor well. This points out how these drill bits have  
12 wandered. Describe this for us.

13 A. Exhibit No. 3 is an actual plot of the wellbore track for all the wells in the Big Canoe  
14 Mountain area. They are shown in various colors. The names of the wells in the track  
15 are shown in the legend on the right-hand side. Today we are proposing to amend the  
16 Special Field Rules to use the Burgess well as I explained before. That is shown on your  
17 exhibit with the dark blue arrow. That is the well that has the deepest penetration to date.  
18 The Newman well, if you look at the slide, the 27-7-06 well, is the type log for the field  
19 at this time. Today we are simply proposing to use a different well for definition. Also,  
20 on this exhibit you can see the wellbore track for the two wells that were drilled this past  
21 year. The Bearden well is the well that extended second furthest away from the surface  
22 location even though it was drilled only to a total depth of 4,800 feet. The Bearden well  
23 walked further than any other well with the exception of one well. The Hall well is the  
24 reddish-brown track that is right here on this exhibit. It had a twin well, the monitor well  
25 that we used for the microseismic and subject to additional exhibits, the red and white  
26 dashed line that is close to that. These wells were drilled slightly over 800 feet apart.  
27 You can see that the wellbore tracks were slightly divergent but they each walked  
28 considerably far away from the surface location.

1 Q. We would expect that given this history over these numerous wells that any additional  
2 drilling in here unless some technology comes along that allows us to drill a straight well  
3 is what we can expect and hence the 320-acre units would be appropriate for future  
4 development. Is that your position, Mr. Wood?

5 A. Yes.

6 Q. Let's go to your next exhibit, please. That is going to be the new type log that we are  
7 recommending for the Board.

8 A. This is the Burgess E28-09-30 well, State Permit No. 15073. Today we are proposing to  
9 use and define the Conasauga Shale with this well. The top of the Conasauga Shale  
10 would occur at 1,956 feet measured depth. The base would occur in this well at 8,971  
11 feet measured depth. This well was drilled to a total depth of 9,009 feet which is a true  
12 vertical depth of 8,974 feet.

13 Q. It is your testimony that this type log is a representative sample of the Conasauga Shale  
14 Gas Pool for the Big Canoe Creek Field.

15 A. The Conasauga Shale should be defined as all Conasauga Shale that would correlate  
16 therewith, whether it occurs deeper than this log or shallower than this log. The top of  
17 the log interval and the top of this defined interval is not based on strata. This well went  
18 quite deep and there was 1,800 feet of surface casing set in this well, so the top of the log  
19 interval is 1,956 feet. There is Conasauga Shale from the ground surface to 1,956 feet in  
20 this well but any well completed shallower in the Conasauga would be part of this  
21 reservoir.

22 Q. Let's go to your next exhibit, Exhibit No. 5. One of the things that we are asking for in  
23 the Special Field Rules is an amendment to Rule 5A. That is on the drilling and  
24 completion operations but before I describe that rule for you, would you tell us what this  
25 exhibit is showing and the information you encountered from these wells as it relates to  
26 groundwater?

27 A. Certainly. The occurrence of groundwater in this area near Ashville is very important.  
28 The area that is underlain by the shale typically has had fewer homes built on it because it

1 was an area quite difficult to get groundwater. Dominion and HighMount, in drilling  
2 each of their gas wells, have been observant of the occurrence of groundwater because  
3 actually it's a particular problem in the drilling process. With this Conasauga Shale  
4 being very thick, if there were water entering the wellbore it could cause the wells to get  
5 stuck and cause other drilling problems. There is an insert table that accompanies this  
6 exhibit that I have put on a separate slide. It has the occurrence of each of the drillings.  
7 We used a topographic map because it shows the Canoe Mountain area, the City of  
8 Ashville. It also has homes and structures and roads on this exhibit. One of the things  
9 that Dominion and HighMount have asked our firm, Tom Joiner and Associates, to do is  
10 to conduct a groundwater well inventory around many of these wells prior to stimulation.  
11 In conducting those water well inventories we used topographic maps and all the  
12 information that we had available. We have not found that there have been any domestic  
13 water supply wells deeper than 200 feet in this area. If you look at the insert table, which  
14 I have as a separate slide, this is a summary of all the wells that have been drilled and the  
15 records from the files that Dominion and HighMount had. The bottom line of this is that  
16 they have not encountered groundwater deeper than 180 feet.

17 Q. Currently our Rule 5A of the Special Field Rules for the Big Canoe Creek Field reads  
18 that unless an exception is granted by the Board surface casing shall be set at a depth of  
19 not less than 1,800 feet for all wells and tested to 1,500 psi and then cement shall be  
20 circulated back to the ground's surface. That is the rule as it reads today. What we are  
21 asking the Board to do is to amend that rule so that it will read that surface casing and/or  
22 intermediate casing shall be set at a depth sufficient to isolate all freshwater zones. A  
23 minimum surface casing shall be set at a depth and pressure tested in accordance with the  
24 statewide rules and cement shall be circulated back to the ground's surface. Based on  
25 your knowledge of the occurrence of groundwater as encountered in the wells that have  
26 been drilled by Dominion and HighMount, will this amended rule as we are proposing to  
27 the Board protect the groundwater resources in this area?

28 A. Yes it will.

1 Q. Mr. Wood, go to the next exhibit. You heard my comparison about the Holt and Big  
2 Canoe Creek Fields, the production from those. Would you elaborate some more on this  
3 exhibit and why we have included it in the booklet, please?

4 A. Yes. This exhibit was prepared and sponsored in order to remind the Board of past  
5 activities that have happened in the state where we had a new resource that was being  
6 explored and developed. The Holt Field is significant in that it was one of the first  
7 coalbed methane fields that was drilled and developed not in conjunction with  
8 underground coal mining. It was not a typical reservoir. In the early drilling and  
9 production in that area just east of Tuscaloosa in the Holt Field if someone were making  
10 an observation of what was going on it would see that the results were very de minimis.  
11 Because the technology developed in order to perforate and stimulate wells in such a way  
12 that production rates were much greater, meaning additional wells were drilled in the late  
13 1980's and early 1990's, it was also spurred by the Federal tax credit that was provided  
14 during that time. As you can see the production of the Holt Field changed dramatically.  
15 In the upper left-hand corner we have, as Mr. Watson described earlier with a very  
16 similar slide as this, the production for Big Canoe Creek and Holt. They look very  
17 similar. We hope that in the future Big Canoe Creek Field could have increased  
18 production rates, more wells drilled and the cumulative production would increase like it  
19 has for the Holt Degasification Field.

20 Q. Mr. Wood, let's go to this Exhibit No. 7. This is some data that better describes from a  
21 technical standpoint this Conasauga Shale. Go through that exhibit for us, please.

22 A. We included this because this is never before information that we had collected for this  
23 deposit. We are using conventional core data for the Dawson 2A and other test methods  
24 from that core and even some of the proprietary non-permitted core holes that Dominion  
25 and HighMount have and also using some of the well log information. Based on the  
26 information that we have for the Conasauga Shale the average total organic carbon on a  
27 weight percent of the rock would be .74 percent. The average porosity of the Conasauga  
28 Shale on a percentage basis is 5.69. The average permeability is only  $8 \times 10^{-8}$  millidarcies.

1 Typically the type of reservoirs that you would be familiar with in a conventional  
2 reservoir might have a permeability of  $10^{-2}$  or  $10^{-1}$ . The plate glass in the windows up  
3 here has a permeability of  $10^{-12}$ . You can see that this permeability is quite low. In fact,  
4 it is about halfway between those two. The low permeability makes it difficult to get gas  
5 to a wellbore. The reason that is significant is that the gas that is being produced thus far  
6 is coming through the fractures and the natural fractures that exist in this rock in the  
7 subsurface. Those fractures occurred over geologic time in the mountain building or the  
8 thrust faulting and also over geologic time with the removal of the overburden there  
9 would be additional fractures here. The idea in order to produce gas from a shale like this  
10 is to be able to drill a wellbore and intercept those fractures or drill a wellbore and  
11 artificially fracture and connect to naturally occurring fractures for it to be a viable  
12 productive area. The vitrinite reflectance in the maturity, this has a Ro percent of 1.64.  
13 What that number means is that this Conasauga Shale has a geologic history and a  
14 thermal history that is similar to other productive gas shale trends in the country. It  
15 means that the rocks have been heated up to a degree that what would be present would  
16 be gas, not oil. We wouldn't have oil occluding the four throats of the porous intervals of  
17 the shale, meaning that this is gas shale viable for being exploited. The big number, the  
18 estimated in-place resource, would be the volume of gas-in-place in the ground based on  
19 a Schlumberger log model from an ECS log, 300 billion cubic feet per square mile. That  
20 sounds like a big number. The log interval that this number came from was for a well  
21 that was drilled to about 5,800 feet. The top of the log interval was about 1,600 feet so it  
22 represents about 4,000 feet of section. The problem with this project has never been that  
23 number, the 300. Yes, it is a big number but if you logged a thicker section that number  
24 could be larger. If you were in a portion of the shale where it was thinner like I showed  
25 you on the cross section, the number would be less. The problem is not that there is a  
26 potential resource out here that is gray. Yes, 300 billion cubic feet per square mile or 150  
27 billion cubic feet per 320-acre unit is a big number. The question is, what can we extract  
28 out of that resource? That depends on many factors but the most important factor is not



1 wells that have been drilled. This is also a schematic on the Oaks E23-11-26 well. You  
2 will notice this first vertical line. That is the conductor casing. On each of these  
3 schematics we have shown the conductor casing. The hatched green color behind that  
4 signifies the cement that was placed behind that casing. The surface casing which has  
5 been set and cemented to the surface is the next vertical line. This well was drilled to a  
6 total depth of 8,500 feet. The 4.5-inch casing was set and cement was circulated back up  
7 inside the surface casing. Also shown on each of these schematics are the completions  
8 that have been attempted. There will be a number of intervals where we show where the  
9 well was perforated. We also have shown on these schematics where we have definite  
10 plans to do some additional perforations. Those additional perforations for some time in  
11 the future are also shown on each of those exhibits. This happens to be the Exhibit 14K.  
12 From this Exhibit 8 we have the cumulative production through December 31<sup>st</sup> of each  
13 year. You can see there have been various production volumes from wells, even wells  
14 within the same section, like the Burgess E28. This is the 30 and the 58. You can see  
15 from this significant differences even though these are two wells in the same section.  
16 You have 6,000 Mcf and then 19,000 Mcf. The total production through December 31  
17 has been 121,263 Mcf.

18 Q. All right, Mr. Hanby.

19 CHAIRMAN GRIGGS: That is through what date?

20 MR. HANBY: That is through December 31, 2008.

21 CHAIRMAN GRIGGS: Thank you sir.

22 MR. WATSON: Mr. Chairman, my next witness is Bob Singleton. Mr. Singleton is also  
23 a petroleum engineer. Mr. Singleton is the HighMount official in charge of this project. He has  
24 appeared before you and has on file an affidavit of his qualifications as a petroleum engineer.  
25 Mr. Singleton, I'll ask you the same question. Are you familiar with the petition on file here  
26 today?

27 MR. SINGLETON: Yes sir, I am.

28 MR. WATSON: Have you prepared exhibits in support of the petition?

1 MR. SINGLETON: I have.

2 ROBERT SINGLETON

3 Appearing as a witness on behalf of Petitioner, HighMount Black Warrior Basin, LLC,  
4 testified as follows:

5 DIRECT EXAMINATION

6 Questions by Mr. Watson:

7 Q. Mr. Singleton, if you would go to Exhibit No. 9 on the screen. Tell us what is shown on  
8 this exhibit.

9 A. I would like to first point out that the screen depicts the top portion of what is shown in  
10 the exhibit booklet.

11 CHAIRMAN GRIGGS: Mr. Singleton, if I could interrupt you for a minute. We will  
12 recognize Mr. Singleton as an expert petroleum engineer. He has appeared before us before.

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

14 A. The exhibit in your booklet combines these next two slides. I just wanted to point that  
15 out. The top portion of Exhibit 9 as shown on the screen depicts in bullet point fashion a  
16 comprehensive list of the fluids used to stimulate wells in the Big Canoe Creek Field  
17 prior to 2008. Those stimulation fluids include gel that was foamed with nitrogen,  
18 slickwater or basically water with a slight amount of a viscosifier thickening agent added  
19 to it, foamed to 70 percent quality with carbon dioxide, foamed HCL, foamed with 70  
20 percent CO<sub>2</sub>, what we could call energized slickwater or just an assist which means  
21 something lower than a stable foam in the 70 percent quality, more along 45 percent of  
22 the stream going down the hole is CO<sub>2</sub>. The next bullet point depicts just unfoamed  
23 slickwater or slickwater without any kind of energized fluid added. The last bullet point  
24 depicts where we tried some very innovated techniques with just straight liquid CO<sub>2</sub> with  
25 proppant added. I would like to point out that these are the same fluids, many of the  
26 same fluids that are used routinely in the Barnett, the Fayetteville, the Marcellus and  
27 other productive shale formations, pumped, engineered and designed by the same  
28 contractors that are used in other productive shale formations. We have tried a lot of

1 different things and unfortunately have been very disappointed with our results so far.  
2 The bottom portion of Exhibit 9 is just a more detailed list showing a well-by-well  
3 breakdown of some completion information regarding cementing and casing design, the  
4 stimulation fluid used and some more detailed comments for each of the wellbores  
5 depicted in the left column.

6 Q. Mr. Singleton, go to Exhibit 10. What this exhibit is showing and what you are going to  
7 tell the Board, these three wells represented by this exhibit are the most recent attempts in  
8 the field to complete these wells so that they will produce volumes more to our liking.  
9 Go through this exhibit and tell the Board and the interested parties here what your  
10 company has done to try to make these wells more prolific producers.

11 A. Certainly. This time last year we told the Board that we would continue our efforts to  
12 invest in technologies in the Big Canoe Creek Field. This is a more detailed look at those  
13 particular techniques and investments that we made since that hearing one year ago. We  
14 drilled the Hall E32-14-32 and completed the well. This is some detailed information on  
15 the completion techniques. We perforated four separate intervals and stimulated those  
16 four separate intervals with the fluids depicted there and the proppant volumes depicted  
17 there. We performed completion work on three separate intervals in the Dawson 33-09-  
18 2A well and also performed completion work and fracture stimulation work on three  
19 zones depicted here on the Oakes E23-11-26 Well. I would like to point out that in  
20 addition to that we drilled the Bearden E26-11 Well and a monitor well that Mr. Wood  
21 will talk to you more about shortly. For this work depicted as well as the Bearden well  
22 drilling and Hall monitor well, we spent a total of \$4,247,119 in 2008 on this completion  
23 work. As Mr. Vodicka will tell you later with some of the production numbers and the  
24 revenue generated from that work, we are disappointed with the results. We did give a  
25 lot of effort and spent a lot of money last year in continuing to try new things in the Big  
26 Canoe Creek Field.

27 Q. This is in addition to the tens of millions of dollars I addressed earlier in getting down to  
28 the point of 2008. Correct?

1 A. Tens of millions of dollars, yes sir.

2 MR. WATSON: Mr. Chairman, I'm going to call back Mr. Wood for the next exhibit.

3 ROBERT WOOD

4 Appearing as a witness on behalf of Petitioner, HighMount Black Warrior Basin, testified  
5 as follows:

6 DIRECT EXAMINATION

7 Questions by Mr. Watson:

8 Q. Mr. Wood, before you go into your testimony on Exhibit No. 11, orient the Board  
9 members and the interested public as to this monitor well, its location and its purpose.

10 A. This is a copy again of Exhibit 1. We referred to the monitor well. The monitor well was  
11 drilled 800 feet or so away from the Hall E32-14-43 Well that Mr. Singleton just talked  
12 about, one of the wells that was stimulated last year. By stimulating I mean they bring  
13 the fleet of trucks out there with a large pump capacity and they can pump a lot of fluids  
14 and put proppants into the ground. When they do that they fracture or crack the ground.  
15 The monitor well was drilled to the same depth as that gas well, always with the intention  
16 of plugging it. It was done with the knowledge of the staff and approval by the staff. As  
17 Mr. Watson said a few days ago, it is basically to put a stethoscope into the ground and  
18 listen for the occurrence of the fractures happening in association with and in some  
19 distance from the Hall well, the gas well. I just wanted you to see by this exhibit where  
20 that monitor well is located. Exhibit No. 11 is a portion of the report that was provided  
21 by the contractor. The contractor that was used is a world-class service company that  
22 does this throughout the world. They are the same company that has done a lot of work  
23 in monitoring fractures in other gas shale producing regions of the United States. Part of  
24 their report included the three panels and I have those top three panels as a slide. If you  
25 would, refer to what is depicted here on the screen. The upper portion is the example that  
26 they provided of what they were looking for. This is the example that shows how good  
27 microseismic data should look like. That data looks almost like a seismic section or  
28 something that you are use to seeing. The results of the data would have a very clear area

1 above a very strong reflector. That is created as the fracture is being propagated out  
2 through the formation. The actual results from the Hall well are shown in red, the bottom  
3 two panels. If you will look at the microseismic displays that are there, two of them,  
4 basically what you have looks like snow on a TV screen with very little reception. There  
5 is a very minor area that is clear like they were looking for and a very weak signal  
6 indicating that there were not strong reflectors. The next slide shows a quote from their  
7 report. They are asking the question, why did the results of this come back so poor?  
8 They basically said that the data was of poor quality and they could not provide an  
9 interpretation. As to why, they listed some things, acquisition. They said background  
10 noise. They were wondering if there were gas bubbles in the monitor well. The water in  
11 the monitor well was potable water that came from a nearby water supply. There was no  
12 gas in the monitor well. As far as distance and geometry, they designed it. There was  
13 not a problem at this location. It was at the perfect distance and had the perfect  
14 geometry. The length of the receiver was not a problem at this location. They mentioned  
15 geology. They recognized that the structure is very complex and not similar to any other  
16 shale trends. The rock type or the lithology is also very complex and not similar to other  
17 productive shale plays. That is what Mother Nature has given us to work with and as far  
18 as being able to do something with it is creating a problem. If we look at their  
19 conclusion, they said the Big Canoe Creek project is not similar to any known productive  
20 shale reservoir. Therefore, they emphasize new ideas and/or technology will have to be  
21 employed. When we presented our request for the Special Field Rules in 2007 we were  
22 asking for the 320-acre drilling units which the Board approved. We were drilling to  
23 deeper portions of the reservoir. Between the time of 2007 and 2008 when we were at  
24 the hearing last year HighMount and Dominion had drilled a number of wells in the low  
25 8,000 to 9,000 foot range. In fact, last year I referred to a well that required substantial  
26 effort to get to 9,000 feet. When it was stimulated at depth it was only producing 15 Mcf  
27 per day. In the face of that with the gas rates being so low, Dominion continued to do  
28 work to try to figure out how to better, as we would say in Tuscaloosa, crack this nut.

1 That is why they did this exercise of the microseismic in drilling the monitor well. That  
2 work just for doing the monitor well and the microseismic cost almost \$600,000. The  
3 conclusion was that what we need are new ideas and new technology in order to be able  
4 to better stimulate this. This company has made a tremendous effort to attempt to do it.  
5 It appears from the results that going deeper is not the answer, so we will need new  
6 technology and new ideas. That is sort of the reason that we included the exhibit  
7 showing the old Holt Field, the period of time it had production when there were very  
8 little results and then new ideas and new technology came along and you can see the  
9 results of what happened there with coalbed methane.

10 Q. Mr. Wood, would it be fair to say that in order to produce gas from the Conasauga Shale  
11 you either have to find naturally occurring fractures or you have to make fractures  
12 through this stimulation and fracing technique that you have described?

13 A. Well, that is very true. We can't make enough fractures, artificially stimulation to make  
14 this work. We have to be able to create those fractures in order to tap into naturally  
15 occurring fractures. We see differences in the production rates of wells drilled in various  
16 parts of the field. I would like to go back to a slide that Mr. Hanby referred to. Mr.  
17 Hanby showed Exhibit 13G which is the gas production of the Oakes E23-11-26 Well.  
18 This well started producing in 2007. In August of this past year Mr. Singleton testified  
19 about a stimulation that was done in 2008 for this Oakes well. That is why the monthly  
20 production dropped down a little bit; they had the well off line while they were doing that  
21 work. They spent a considerable amount of money, as a matter of fact \$723,000 doing  
22 the stimulation of this well to create additional fractures and to try to produce a different  
23 part of this reservoir. I superimposed the green-dashed line to show that there was not an  
24 increase in production after spending \$723,000 in August. Basically it follows the same  
25 curve. The point is that we do need additional technology and we do need additional  
26 ideas. It doesn't really matter how much is in the ground. The question is, how much  
27 can we get into a pipeline?

1 Q. Go back, Mr. Wood, to Exhibit No. 2. You have shown the wells that are producing.  
2 Mr. Chairman, the Board has maintained an oversight over this field from day one. We  
3 have been required to come back to the Board annually to present the results of our  
4 previous year. We were instructed by order of the Board to come to you when we had  
5 information to either unitize this field, that is to pool everything and create a unit that  
6 would say we are going to put all the gas in one bucket and divide it up on some  
7 equitable basis. That requires under our law that we are able to testify that the relative  
8 contribution each tract is expected to make to total unit production is represented by a  
9 formula that we will recommend to this Board that we would have to have signed off on  
10 by least  $66 \frac{2}{3}$  of the royalty and working interest owners in the field. That is a high  
11 level of technical information that we have to present in order to protect those equities,  
12 both of the working interest owners and particularly the royalty interest owners. We do  
13 not have that kind of information; hence we have not recommended to this Board that this  
14 field or a portion of it be unitized. We have had production histories from these wells  
15 that are producing in this field. Mr. Wood in his testimony has recommended that these  
16 producing wells be classified as production units. That was your testimony was it not,  
17 Mr. Wood?

18 A. That is correct.

19 Q. We have a history of production from these wells. Those 320-acre units are not drilling,  
20 so by definition they are production units, are they not?

21 A. That is correct, particularly with the new rule.

22 Q. Particularly with the new law that defines production units and drilling units.

23 MR. WATSON: Mr. Chairman, we are here today under order of the Board to come  
24 back to you to file a petition by March 16<sup>th</sup> to have a plan to present to you. Our plan that we are  
25 presenting today is to amend these rules as we have described and to declare these units, as they  
26 are producing based on the production information that you have heard from Mr. Hanby,  
27 production units. Then it is up to the wisdom of this Board as to whether or not you think that  
28 we have complied sufficiently with that order to allow us to distribute the escrowed royalties that

1 have accrued from the production from these twelve wells. With that introduction I will bring  
2 my last witness to the table, please. That's Vince Vodicka. Mr. Vodicka is a landman with  
3 HighMount Black Warrior Basin, LLC. He has been in charge of the landmen who have been  
4 working in this area. Mr. Vodicka, you have testified before this Board, have you not?

5 MR. VODICKA: I have.

6 MR. WATSON: You are a landman in this area of Big Canoe Creek Field and it is your  
7 responsibility as a landman for HighMount?

8 MR. VODICKA: That's correct.

9 MR. WATSON: Are you familiar with the production and the gas that has been sold  
10 from this field and the royalties that have been escrowed?

11 MR. VODICKA: Yes I am.

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

13 CHAIRMAN GRIGGS: He is so recognized.

14 VINCE VODICKA

15 Appearing as a witness on behalf of Petitioner, HighMount Black Warrior Basin, testified  
16 as follows:

17 DIRECT EXAMINATION

18 Questions by Mr. Watson:

19 Q. On the screen and in your booklet as Exhibit No. 12 is Mr. Vodicka's exhibit. Mr.  
20 Vodicka, tell us what is shown on that exhibit, please.

21 A. This is HighMount's escrowed royalty report from the time period from first sales  
22 through December 31, 2008. What we have in the far left-hand column are the well  
23 names and numbers. Moving to the right we have the HighMount accounting property  
24 numbers which mean nothing to anybody but HighMount. The third column to the right  
25 is the total revenue amount through December 31, 2008. All these amounts are 100  
26 percent numbers with one deduction, that being severance taxes. The bottom line for the  
27 total revenue for all the wells is \$745,938.41. The far right column is the estimated

1 royalty amount. These numbers likewise have only one deduction, that being severance  
2 taxes. You can see those amounts. The total royalty escrowed is \$132,755.52.

3 Q. Mr. Vodicka, the term estimated royalty amount, explain that for us, please.

4 A. Well, one reason would be the only deduction being severance taxes there will be lease  
5 specific deductions for transportation, dehydration, compression, etc. in some leases if  
6 not in most leases. We also have some title issues where we have adverse claims. We  
7 may have both sides under lease but those royalties may be different. In that case we use  
8 the higher royalty to err to the high side. It may, in fact, be the lower royalty owner that  
9 owns the interest.

10 Q. But the amount that you have escrowed has been the highest possible amount payable  
11 under those leases. That's what I understand you to say?

12 A. That's correct.

13 Q. We are asking for permission to distribute these royalties to those owners legally entitled  
14 to those distributions. Are we saying to the Board that we can make those distributions  
15 within a specific time period?

16 A. That's correct. We can certainly make those distributions within the time frame that we  
17 have requested out of the petition.

18 MR. WATSON: Mr. Chairman, not knowing when the Board might rule we would say  
19 that those royalties would be distributed on the 20<sup>th</sup> day of the month following the month in  
20 which the Board rules. If you rule on our request today those royalties would be distributed by  
21 the 20<sup>th</sup> day of next month. If you do not rule until the month of April, they would be distributed  
22 by the 20<sup>th</sup> day of May.

23 Q. Is that correct, Mr. Vodicka?

24 A. That's correct.

25 Q. Thereafter, Mr. Vodicka, as these wells continue to produce our request is that we be  
26 allowed to make those royalty distributions at the subsequent 20<sup>th</sup> day of the following  
27 month or as specifically specified in the various leases?

28 A. That's correct.

1 MR. WATSON: Mr. Chairman, I would ask that you receive into the record of this  
2 hearing today Exhibits 1 through 14 to the testimony of my witnesses.

3 CHAIRMAN GRIGGS: They are admitted, Mr. Watson.

4 (Whereupon, the exhibits were received in evidence)

5 MR. WATSON: I'll ask each of my witnesses to respond starting with Mr. Wood, then  
6 Mr. Hanby, Mr. Singleton and Mr. Vodicka. Would the approval of this petition granting the  
7 request as specified in this petition prevent waste as that term is defined by the Oil and Gas Laws  
8 of Alabama, would it protect correlative rights, would it avoid the drilling of unnecessary wells  
9 and would it promote orderly development in the Big Canoe Creek Field? Mr. Wood?

10 MR. WOOD: Yes it will.

11 MR. WATSON: Mr. Hanby?

12 MR. HANBY: Yes it will.

13 MR. WATSON: Mr. Singleton?

14 MR. SINGLETON: Yes sir it will.

15 MR. WATSON: Mr. Vodicka?

16 MR. VODICKA: Yes I believe it will.

17 MR. WATSON: That's all we have on direct, Mr. Chairman.

18 CHAIRMAN GRIGGS: Okay, Mr. Watson. Do we have any questions from the staff?

19 ROBERT SINGLETON

20 EXAMINATION BY BOARD/STAFF

21 Questions by Dr. Tew:

22 Q. Mr. Singleton, on Exhibit No. 9 where you went through each of the stimulation  
23 techniques that were employed on each of the wells and you had various types of  
24 stimulations that were employed there, given the unique mineralogy of this formation,  
25 was that mineralogy and other mechanical and physical properties of the rock taken into  
26 consideration as you developed those stimulation programs for each of the wells?

27 A. Absolutely, Dr. Tew. Portions of the core were submitted and analyzed by service  
28 companies and consultants and studied and the mineralogy as well as the geologic setting,

1 the stresses involved, log analysis and other engineering techniques were all considered  
2 and recommended and the techniques that were employed.

3 Q. Thank you.

4 ROBERT WOOD

5 EXAMINATION BY BOARD/STAFF

6 Questions by Dr. Pearson:

7 Q. Mr. Wood, in regard to your survey of the shallow groundwater aquifer, I understood  
8 your testimony to be that you found no wells below 200 feet that were producing. Is that  
9 right?

10 A. That's correct.

11 Q. What about wells shallower than 200 feet. Did you find any wells where people were  
12 using the water shallower than 200 feet?

13 A. Of all the wells that we inventoried including old records at the Alabama Geological  
14 Survey from work that was done back in the 1960's, all of the wells where we did actual  
15 field inventories had either been abandoned or were no longer in use except for two  
16 wells. As I recall they were still there but they also had public water supply available to  
17 potable water at those residences. We did not find anything that would indicate that there  
18 was widespread use of water from an area underlain by the Conasauga. That is really  
19 because it is underlain by the Conasauga and there is not a lot of water resources there.

20 Q. That was going to be my question. Other than the couple of wells that you found by  
21 research, do you have any information as to what the characteristics of the pockets or  
22 whatever that the groundwater was in that those wells were producing from?

23 A. The shale weathers to clay near the surface. This Conasauga also has a high percentage  
24 of calcium carbonate in it that also weathers. It weathers into sort of a silty gritty residue.  
25 In some areas water could enter a dug well or a drilled well from very shallow. One  
26 reason I think it would be very good for them to have a rural water system here is that  
27 that is typically not a very good or a safe place to obtain groundwater because of the high  
28 incidents of septic contamination from septic tanks and that type of thing.

1 Q. Going to the point of your request for the amendment as to Rule 5, do you feel like the  
2 requested amendment will protect whatever future water-bearing formations might be  
3 discovered?

4 A. Absolutely and particularly the way that it is worded, that if water is found below the  
5 surface casing then an intermediate casing would be set. I think that it would be very  
6 protective of groundwater resources. In other words, the statewide rules are very well  
7 written and they are applicable here just as they would be anywhere else.

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

9 Questions by Chairman Griggs:

10 Q. I have just a couple of questions. Mr. Wood, under the request according to the statewide  
11 casing, in this case you would be cementing from 300 to 600 feet roughly depending on  
12 the depth of the well?

13 A. Well, if the well was drilled to 9,000 feet we would be setting 1,800 feet of surface casing  
14 according to that rule.

15 Q. Yes.

16 A. It is a depth-based rule.

17 Q. It sounds like for most of the wells, the depths that have been drilled; you are looking at  
18 300 to 600 feet when we looked at the rule.

19 A. That is correct but if a shallower well were drilled then the statewide rule would apply  
20 and a minimum of 300 feet of surface casing would be set.

21 Q. I'm just curious. Who did the microseismic survey?

22 A. A service company called Pinnacle. They are some of the ones that helped develop this  
23 new technology.

VINCE VODICKA

EXAMINATION BY BOARD STAFF

Questions by Chairman Griggs:

Q. Mr. Vodica, the escrowed money, has that been in an interest bearing account?

A. To answer that question, no. I don't think it has been in an interest bearing account but HighMount is prepared to pay interest on the funds.

Q. HighMount will pay interest on the funds.

A. Yes sir.

Q. That is a point that I wanted to get clear for us.

ROBERT SINGLETON

Questions by Chairman Griggs:

Q. One other question for you, Mr. Singleton. Essentially as a lay person it appears to me that there is a great deal of gas in St. Clair County in this area that we are discussing. We all know there is a great deal of gas here. It is obvious that there are many, many difficulties in getting that gas out. You have spent a great deal of money in an effort to get that gas out. We certainly as a Board want to encourage your efforts to produce the gas that is in St. Clair County and other areas of the State of Alabama. Where do we go from here, I guess is the bottom line? Do you have ideas? I think everybody out here wants to know what do we do next. How do we facilitate production of huge volumes of gas that we desperately need in this state?

A. Mr. Griggs, those are very fair questions. You started out in the questions pointing out that the gas-in-place appears to be a staggering amount. An estimate from log analysis, we estimate it at 300 billion standard cubic feet per square mile. Even with extremely modest recoveries that could translate into a very staggering amount of gas recovered, certainly for the operator that is drilling and producing the wells and for the royalty owners. That is certainly our ambition. We are concerned. We have spent a tremendous amount of money with very disappointing results, however, because of the staggering amount of gas-in-place and just the chance, if you will, view it as a lottery ticket, if we

1 can figure this out both for us, the working interest owners and the royalty owners, if that  
2 lottery ticket should come up then we are prepared to keep trying. Because of the results  
3 we are not prepared today, particularly in a sub \$4.00 per Mcf gas environment to keep  
4 trying the same techniques that we have tried. They have been miserably disappointing.  
5 Because of that commodity price environment that we are currently in we do not have  
6 immediate and aggressive plans to continue to spend lots of money recklessly on the  
7 same thing that hasn't worked to this point. We plan to be very slow and methodical and  
8 before we go and spend lots of capital in this commodity environment that we are in we  
9 are going to take our time and study the data and try to be careful on what we do next.  
10 Specifically what is that? I don't have an answer for you today. We don't have that  
11 answer but we are not preparing to abandon this field and walk away from it at this point.

12 Q. Well, that is what we want to hear. Dr. Tew.

13 DR. TEW: I would just like to point out both to the witnesses and to the audience here  
14 that nationwide there is a tremendous amount of research going on into shale gas resources in the  
15 United States. I think that the general thought is that this resource nationwide will help us a  
16 great deal as we move into the future in terms of our energy needs. This research is taking place  
17 both within industry and also within research institutions across the country, including work that  
18 we are doing at the Geological Survey of Alabama in Tuscaloosa and at the University of  
19 Alabama. I would encourage HighMount to follow that research and take advantage of that  
20 research and be informed by it as it develops because this is looking into both the geologic  
21 occurrence and characteristics of these types of resources and also the engineering technologies  
22 that are needed to unlock these resources and make these resources part of the solution to some  
23 of our future energy problems. I would just like to make that comment.

24 CHAIRMAN GRIGGS: Mr. Pearson.

VINCE VODICKA

EXAMINATION BY BOARD/STAFF

Questions by Mr. Pearson:

1  
2  
3  
4 Q. Mr. Vodicka, in regard to the escrowed monies for royalty's can I ask a couple of  
5 questions about the leases that HighMount has. Under the oil and gas leases that  
6 HighMount has in this field, do those leases provide for HighMount having the right and  
7 authority to create the drilling units?

8 A. We have pooling authority under most leases, almost all of them, but I think there is a  
9 couple that we have to have permission in advance.

10 Q. With respect to the others that you don't have to have permission, do I understand that  
11 the royalties that are indicated on your exhibit will be paid according to the individual  
12 well units?

13 A. That's correct.

14 Q. As to the couple of leases that you say that you have to have authority for pooling, was  
15 that authority obtained or do you have that authority?

16 A. I want to say it was obtained but one of them is the Wesley West lease and they are a  
17 working interest partner as well as a royalty owner so I don't think I will have any  
18 difficulty with that one.

19 Q. So your testimony would be that with respect to all of the individual producing well units  
20 that royalties that are indicated here are going to be paid according to the royalty owners  
21 that are the owners in those units that produce the gas. Am I right?

22 A. That's correct.

23 MR. PEARSON: No further questions.

24 CHAIRMAN GRIGGS: There have been a number of references to previous hearings by  
25 this Board in connection with this petition. Those were Docket Nos. 1-31-07-11B and Docket  
26 No. 2-6-08-12A. Because of those references we will incorporate those dockets and the record  
27 of those docket hearings into this record.

1 (Whereupon, Docket Nos. 1-31-07-11B and 2-6-08-12A  
2 were incorporated by reference)

3 CHAIRMAN GRIGGS: Now, at this point what I would like to do is to offer anyone  
4 who wants to make a statement or ask a question of these witnesses the opportunity to do that. If  
5 you would, raise you hand if you are interested in making a statement and I will call on you.  
6 You will need to come up to the microphone and if you do that please state your name before  
7 you make your statement. I see a hand back here. If you will, step right up and please state your  
8 name for the record.

9 MR. MACON: My name is Jack Macon. I live at 3640 Double Bridge Road. I have  
10 been under lease since 2006. As present, I don't know--we were talking about royalties. As you  
11 can see, I'm in Section 20, Range 4. The closest well would be in Section 21 or in Section 30.  
12 My question is, when we divvy out royalties am I going to get anything?

13 CHAIRMAN GRIGGS: That's a very good question which we will direct to which  
14 witness, Mr. Watson?

15 MR. WATSON: Mr. Vodicka can give the exact answer but based on where I hear he is  
16 located in Section 20 next to the West well, he is outside the 320-acre unit that is to the east, so  
17 he would not be entitled to any of the accrued royalties.

18 CHAIRMAN GRIGGS: Because his property is not within a producing unit?

19 MR. WATSON: It is not within a producing unit, that's correct.

20 MR. MACON: Can you tell me if any of my gas has gone into the production? Have  
21 you sucked it out from under my property into these wells?

22 MR. WATSON: Mr. Mason, the testimony has been today that it is very difficult to suck  
23 the gas out, as you say, of any of these units. The Oil and Gas Board has set up these 320-acre  
24 drilling units. We are asking that they be declared production units because we do not believe  
25 that we are taking any gas out from under your Section 20 land. Certainly the Conasauga Gas  
26 Pool extends there as it does throughout this field area.

27 MR. MACON: So you are telling us that unless you are sitting in close proximity of a  
28 well you are not going to get any?

1 MR. WATSON: That's correct, unless you are in one of the 320-acre production units  
2 that we are requesting.

3 MR. MACON: So you are under the impression that it is right straight down. Okay? I  
4 disagree with you.

5 MR. WATSON: You are entitled to do that.

6 MR. MACON: I am certainly against any royalties being paid.

7 CHAIRMAN GRIGGS: Thank you sir.

8 MR. WATSON: We hope in the future that if we can unlock the key to this gas, Mr.  
9 Macon, that there will be a well drilled on your property. That's what we hope to do and we  
10 hold out that hope for you.

11 MR. MACON: Thank you.

12 CHAIRMAN GRIGGS: Thank you sir. Anyone else? Yes ma'am.

13 MS. SKINNER: My name is Marie Davis Skinner. I live in Moody, Alabama. I have a  
14 question concerning the actual lease that people have signed. As an heir I had gotten a lease to  
15 sign. A member of my family was tragically killed in an automobile wreck and I have not signed  
16 it yet. I do not have it with me. I do not remember HighMount. It seems to me on that lease it  
17 was Dominion. So, if I signed with Dominion would that lease be no good or would I have to  
18 get a new lease under HighMount to sign?

19 MR. WATSON: Let me first address the relationship between Dominion and HighMount  
20 and then I will let someone answer your specific question. HighMount purchased all the assets  
21 of Dominion. Had you signed a lease with Dominion that lease would have been assigned to  
22 HighMount. You would not have to sign another lease for that lease had it been signed to be  
23 transferred to the operations of HighMount. As to your particular lease that has not been signed,  
24 his answer was he did not know specifically about Ms. Skinner's lease. He would have to go  
25 back and look if she has not signed the lease, simply one was offered to her deceased family  
26 member.

27 MS. SKINNER: It was to myself but with the tragedy in the family I have not gotten  
28 around to signing it yet.

1 MR. VODICKA: When was that lease offered?

2 MS. SKINNER: I think I have had it since about July. It has been awhile.

3 MR. VODICKA: We will just have to check. I don't know the specific details.

4 MR. WATSON: If you will get with Mr. Vodicka at the conclusion of this hearing and  
5 give him the information, Ms. Skinner, he will be glad to look that up for you.

6 MS. SKINNER: Thank you.

7 CHAIRMAN GRIGGS: Yes sir.

8 MR. ROBINSON: Thank you Board, HighMount, Mr. Watson. My name is Charlie  
9 Robinson. I am a royalty owner. I also represent folks that probably are in the neighborhood of  
10 20,000 acres of royalty owners. We appreciate y'all coming to St. Clair County today. It is a lot  
11 more convenient for these folks to come here than it is to load up and come to Tuscaloosa. I've  
12 got a comment. Well, those were my comments. I kind of picked up on what you said Mr.  
13 Griggs when asking Mr. Singleton what are their plans for going forward. I didn't hear a  
14 definitive answer. Then you take Mr. Macon, for example, whose property is in Section 20. I'm  
15 sure Mr. Macon is under some kind of a lease from somebody. I would imagine Dominion or  
16 HighMount. My question is, it would seem that he is being held hostage because he is in this  
17 lease without y'all justifying or telling the public what your plans are. He is in the lease and if  
18 you are not going to develop his land then let him out of his lease where somebody else can.

19 MR. WATSON: Fair enough.

20 MR. ROBINSON: It would just appear to me that there may be a lot of folks in that same  
21 situation. I don't know. In regard to Exhibits 9 and 10, I recognize that gas is low. By the way,  
22 I don't represent Mr. Macon but he just happened to be one of the issues that I had a question  
23 about.

24 MR. MACON: I did not ask you to represent my lease.

25 MR. ROBINSON: In regard to Exhibit 9 where it talks about stimulation, I'm not a  
26 geologist by no means, but are all these stimulations dealing with some form of liquid?

27 MR. SINGLETON: Yes sir.

28 MR. ROBINSON: Well, I've got one saying no and one saying yes.

1 MR. SINGLETON: Yes, either in the form of a gas which is a liquid or an aqueous form.

2 MR. ROBINSON: Or a foam that can be reduced to some type of moisture, correct?

3 MR. SINGLETON: That's correct.

4 MR. ROBINSON: Are there any other types of fracture methods that can be used to frac  
5 these wells that do not encompass using a liquid or a moisture?

6 MR. SINGLETON: Not that are very common that I am aware of. These are the  
7 common industry standard stimulation fluids that would apply in these formations.

8 MR. ROBINSON: But if they are not working would it not make geological sense to try  
9 to use a different type of way to do it?

10 MR. SINGLETON: Absolutely, yes sir.

11 MR. ROBINSON: Are y'all willing to make that commitment?

12 MR. SINGLETON: I think that is exactly how I responded to Mr. Griggs question. We  
13 are looking for that, yes sir.

14 MR. ROBINSON: Thank you.

15 CHAIRMAN GRIGGS: Thank you, Mr. Robinson. Anyone else? Yes sir.

16 MR. BEARDEN: Good morning gentlemen. Billy Bearden. I represent the Bearden  
17 well in Section 26. In using that section can you explain to me the 320-acre drilling units, where  
18 it measures? Is it from the well site or is it from one of the corners of the section?

19 CHAIRMAN GRIGGS: Mr. Watson.

20 MR. WATSON: Mr. Bearden, that is from the corners of the section. It is the West Half  
21 of Section 26, 320 acres consisting of the West Half of Section 26 from the corners of the  
22 section.

23 MR. BEARDEN: From the corners of the west section, correct. Put your laser up there.

24 MR. SINGLETON: The west half of that governmental section.

25 MR. BEARDEN: Okay, 320 acres from there in what, an 80 acre square?

26 CHAIRMAN GRIGGS: Two stacked 160's.

27 MR. WATSON: No sir. It's a 320-acre rectangle.

1 MR BEARDEN: Okay. Mr. Singleton mentioned this; I had your 2008 upcoming  
2 drilling and stimulation activities. I understand the reason we don't have 2009 is because of the  
3 money already spent and the price of gas. Is that correct? We don't exactly know where you are  
4 going.

5 MR. SINGLETON: Partially correct. The money already spent and the results that have  
6 achieved from spending that money are very disappointing. The price of gas is certainly working  
7 against us right now. It's a very low gas environment that we are working in, price environment  
8 that we are working in.

9 MR. BEARDEN: I understand. We are glad that you are here in St. Clair County. I just  
10 want to mention that. We keep talking about the depth of wells. The Hall well and the Bearden  
11 well I believe are your shallow wells right now of about 4,800 feet. Is that correct?

12 MR. SINGLETON: Yes sir, that's correct.

13 MR. BEARDEN: I know that the Hall well I believe has completely been fraced, cased  
14 and is drawing some--I'm getting this from an oil and gas magazine--is producing somewhere  
15 around 84,000 cubic feet per day.

16 MR. SINGLETON: No sir, I don't think it is that much.

17 MR. BEARDEN: I'm getting this from an oil and gas magazine that is put out monthly  
18 that circulates---

19 MR. SINGLETON: That may have been some instantaneous rate, very close to when the  
20 well was stimulated. It may have been some instantaneous rate that magazine is referring to. I  
21 don't know. It is not producing at that rate right now.

22 MR. BEARDEN: Okay. Is the well doing pretty well?

23 MR. SINGLETON: No sir.

24 MR. BEARDEN: The reason that I bring this up is I was wondering why--we are all here  
25 looking after our interest--why you did not come back and complete our well, fully case it, so  
26 that it would produce the amount that it should produce. The term you use is that it is just  
27 leaking, is all that it is doing.

1 MR. SINGLETON: That's a very good question, Mr. Bearden. The Hall well was cased  
2 to total depth and hydraulically fractured. We spent \$1,399,000 to drill and stimulate that well.  
3 The Bearden E26-11-29 well, we have spent to date \$385,000 to drill and it is just the surface  
4 casing. Production casing has not been run in that well and the well has not been stimulated in  
5 any fashion. That was very intentional because we wanted to know in trying to improve  
6 economic performance; we wanted to know, as some in our industry community have suggested,  
7 that this formation would produce without being cased and without being stimulated. Production  
8 from the Bearden well is very poor as well. It has been an intentional experiment. That goes  
9 further to the point that we are trying many, many things.

10 MR. BEARDEN: I am supposing that the pump that is sitting on our well is to pump out  
11 water. Is that correct? There is a large pump sitting on our well site that has been there for  
12 several, several months. It is not being used.

13 MR. SINGLETON: It is not hooked up. There is no water to pump out that we can  
14 determine. That was in preparation had we gone in and stimulated the well. It is a pumping unit.  
15 We have not hooked up because there is no water to pump out at this point.

16 MR. BEARDEN: The Hall well, is the pad still built or have you reclaimed the land  
17 there at the Hall well?

18 MR. SINGLETON: The Hall monitor well has been plugged, abandoned and reclaimed.  
19 The Hall well pad, the well is still there and the well pad is still there.

20 MR. BEARDEN: All right. Well, we are just trying to keep up down through the valley  
21 what is happening. There is not a lot going on in my well. I have a guy that comes up there once  
22 a day and reads the meter, monitors the well, and that's about all. We are just wondering.  
23 Hopefully in the future HighMount will jump back in there and get the production going and get  
24 back on these wells. That's what we are looking forward to.

25 MR. SINGLETON: Thank you for your encouragement. We hope for the same thing.

26 MR. BEARDEN: Thank you.

27 CHAIRMAN GRIGGS: Thank you Mr. Bearden. Yes, Mr. Macon.

28 MR. MACON: I hate to be a nuisance.

1 CHAIRMAN GRIGGS: You will have to come up to the microphone, Mr. Macon, so  
2 that we can get your comments on the record.

3 MR. MACON: My leased expired March 9<sup>th</sup>. I was wondering, are they going to be  
4 renewed or what?

5 MR. VODICKA: That would be March 9<sup>th</sup> of this year? In other words, it has already  
6 expired?

7 MR. MACON: Yes in 2009.

8 MR. VODICKA: That's a good question. I would have to look into it. I'm surprised  
9 that it hasn't been renewed quite frankly. We will look into it.

10 CHAIRMAN GRIGGS: Thank you sir. Yes sir.

11 MR. LOVEJOY: Chairman Griggs, Lymon Lovejoy. I do appreciate y'all coming to St.  
12 Clair County. I guess this is a question for Vince Vodicka. With the President's keen interest in  
13 gas production and being self sufficient, do you see some investment money or some federal  
14 money coming toward your company that might encourage y'all to stay in St. Clair County or to  
15 come back and make further tests in St. Clair County for us as a nation to be more self sufficient  
16 energy-wise?

17 MR. VODICKA: I'll answer you by saying Mr. Watson is probably more familiar with  
18 the politics and how the industry is involved in it.

19 MR. WATSON: I have been waiting to talk to you, Lymon. I'll talk to you on the record  
20 about that. I had a conversation within the last two weeks with Senator Shelby about this very  
21 subject, not about this particular field, but about the energy situation in this state. I encouraged  
22 him to make field visits to see what is going on and to look out for us as he has done so many  
23 times. I can assure you if there is any money up there available to help not only this operator but  
24 any other operator, he will bring the bacon home.

25 MR. LOVEJOY: We sure hope so. Thank you.

26 MR. WATSON: He is aware of what is going on here.

27 CHAIRMAN GRIGGS: Thank you, Mr. Lovejoy. Any further comments or any  
28 questions?

1 MR. DAWSON: I'm Tom Dawson. We have the Dawson farm and the first well that  
2 was drilled out here. We all had high hopes about that. I just wonder if you are planning to go  
3 back to my well. It is sitting on idle as it looks. The other question I have is how much longer  
4 will you keep those big compressors and things that were left on the site there?

5 MR. SINGLETON: Mr. Dawson, like Mr. Bearden, we don't have any immediate plans  
6 to go back in the Dawson 2A well; however, I think the schematic in the back of the book would  
7 include some proposed perforations, some intervals, that if we do go back that we may complete  
8 at some point in the future, should we find a more effective technique. As to the compressors,  
9 we know that we have a contractual obligation with you that is time sensitive. We are aware of  
10 that. We will certainly address that as the contract requires.

11 MR. DAWSON: Will you see the need to continue having the use of that big pad y'all  
12 built? It looks like an interstate highway.

13 MR. SINGLETON: I think there will be an opportunity, if that compressor stays the  
14 same size, to reclaim some of that and shrink the size of the pad.

15 MR. DAWSON: Very good. Thank you.

16 CHAIRMAN GRIGGS: Thank you Mr. Dawson. Any further comments or any further  
17 questions?

18 MS. CHAPPELL: My name is Edwina Chappell. I won't be bashful about my question.  
19 How do I know if I'm going to get any money? How do I know if the lease that I have signed  
20 includes one of these wells? How do we determine that?

21 MR. VODICKA: It would be determined by the location of the lands that your lease  
22 covers. If you can tell me where that is I can tell you right now whether or not you would be  
23 entitled to any.

24 MR. CHAPPELL: I have no idea. I'm just an heir way down the line.

25 MR. VODICKA: In that case I will give you a business card and when I get back to the  
26 office I will be happy to find out for you.

27 MR. CHAPPELL: Thank you very much.

1 CHAIRMAN GRIGGS: Thank you Ms. Chappell. Anyone else? Any further comments  
2 or questions? Yes sir. Could you state your name, please?

3 MR. MASHBURN: James Mashburn. These ten wells or these twelve wells, are they in  
4 the sections that will be getting royalties?

5 MR. WOOD: Mr. Mashburn, the twelve wells that are producing and the wells that have  
6 accumulated the escrowed royalty are all on 320-acre drilling units. Today we are asking to  
7 make those 320-acre production units. If your land lies underneath any of those then you would  
8 receive royalty from that. The royalties that you would have been paid over the last two years  
9 have been escrowed and would then be given to you based on the division order which this  
10 company already has. It had a title attorney go through all the records and execute division  
11 orders for these wells. If your land underlies one of those areas shaded in gray on the slide up  
12 there then you will receive some royalty.

13 MR. MASHBURN: Well, Section 27 is under that.

14 MR. WOOD: Yes sir. There are two wells in Section 27, the Newman in the East half  
15 and the Andrews in the West half. If you have property there you could receive royalty from two  
16 different wells or from one well.

17 MR. MASHBURN: Thank you.

18 CHAIRMAN GRIGGS: Thank you Mr. Mashburn. Yes sir.

19 MR. CAMERON: Mark Cameron. I'm speaking for Tanya Gee. How would you know  
20 if you are going to be getting royalty checks or not? You said if she could tell you where it was.  
21 It is in Township 13 South, Range 5 East, Section 20, E/2 of E/2 of the SW/4 of the NE/4, being  
22 ten acres more or less.

23 MR. VODICKA: There is not a productive well on that section and there are no  
24 production units in that section at this point. So the answer is no.

25 MR. CAMERON: Well there is not one in the other Section 20 either. Are they in both  
26 Section 20's or what? There are two Section 20's up there, one on the left and one in the far  
27 right corner.

28 MR. PEARSON: Could y'all use the laser and show him the sections.

1 MR. WOOD: I believe you described Section 20 here?

2 MR. CAMERON: Right and there is another Section 20 on the left that you have been  
3 talking about.

4 MR. WOOD: There is another 20 right here that a gentleman spoke about earlier. There  
5 is not a productive well in either of those sections and so there is no unit there. There has been  
6 no production that has occurred in those sections.

7 MR. CAMERON: I understand that but what I am asking now is why are there two  
8 Section 20's?

9 MR. WOOD: They are two different townships.

10 MR. CAMERON: Okay. I understand.

11 MR. WOOD: It's Nos. 19, 20, 21, up to 24. This starts another township.

12 MR. CAMERON: Okay. Thank you.

13 CHAIRMAN GRIGGS: Thank you sir. Any further comments or questions? It's getting  
14 a little bit late. It is now 11:56. We are going to take about a 15 minute recess roughly and we  
15 will be back in session at 12:10.

16 (Whereupon, the hearing was recessed for 15 minutes)

17 CHAIRMAN GRIGGS: We're back in session. Mr. Rogers, is the record complete or  
18 were there any other items that needed to go into the record on this item?

19 MR. ROGERS: We have some other items, Mr. Chairman, an affidavit of notice  
20 submitted by Mr. Watson. We recommend that be admitted.

21 CHAIRMAN GRIGGS: It is admitted.

22 (Whereupon, the affidavit was received in evidence)

23 MR. ROGERS: Some other correspondence, we recommend that be admitted.

24 CHAIRMAN GRIGGS: Who is that correspondence from?

25 MR. ROGERS: It is from Alto Lee Teague, III to the Board and also a letter that I wrote  
26 to Mr. Watson related to notice requesting that they supply certain notice to mineral interest  
27 owners.

28 CHAIRMAN GRIGGS: Okay. Both those letters are admitted into the record.

1 (Whereupon, the letters were received in evidence)

2 MR. ROGERS: Thank you sir.

3 CHAIRMAN GRIGGS: Dr. Tew, any further questions or anything further in connection  
4 with this particular item?

5 DR. TEW: No sir. I believe the staff is satisfied.

6 CHAIRMAN GRIGGS: Okay. Do we have a motion on this item?

7 MR. PEARSON: We do but before I do that, Mr. Vodicka, I was going to point out and  
8 I'm sure that you are aware of this because I heard the questions relative to the escrow and the  
9 interest and the different things. HighMount is entitled to what their lease provisions say.  
10 Alabama actually has a Statute on Payment of Royalty, 9-17-33, that will give some guidance.  
11 I'm sure you have great counsel sitting there beside you that will help construe it. With that in  
12 mind, Mr. Chairman, I move that we grant the petition by HighMount Black Warrior Basin,  
13 LLC.

14 CHAIRMAN GRIGGS: Have a motion to grant the petition. I'll second that motion.  
15 All in favor say "aye."

16 (Board members Griggs and Pearson voted "aye")

17 CHAIRMAN GRIGGS: That item is granted.

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

19 MR. ROGERS: The next item is Item 17, Docket No. 3-24-09-16, petition by Spooner  
20 Petroleum Company, Inc. and a related item, Item 18, Docket No. 3-24-09-17, petition by  
21 Spooner Petroleum Company, Inc.

22 CHAIRMAN GRIGGS: Mr. Tyra, if you have no objection we will hear these items  
23 together, Items 17 and 18. I think it might expedite the hearing.

24 MR. TYRA: Yes sir. I would appreciate that. I was going to request that they be  
25 consolidated. I am John Tyra here on behalf of Spooner Petroleum Company, Inc. We filed  
26 Docket No. 3-24-09-16 which is a request to amend Rules 1, 2 and 3 of the Special Field Rules  
27 for the East Lambeth Church Field. We are asking that Rule 1 be amended to add the Northeast  
28 Quarter of Section 3, Township 1 North, Range 8 East, to the field limits. We are asking that

1 Rule 2 be amended to define the Cogle Sand Oil Pool. We are requesting that Rule 3 be  
2 amended to provide for spacing of wells in that oil pool. In Docket No. 3-24-09-17 we are  
3 asking that the 40-acre drilling unit for the Powell Rabon 3-11 No. 1 Well, Permit No. 15711-A-  
4 B, be reformed to a 157.59-acre producing unit. I have prefiled affidavits of notice for these two  
5 matters and would request that they be admitted to the record at this time.

6 CHAIRMAN GRIGGS: They are admitted.

7 (Whereupon, the affidavits were received in evidence)

8 MR. TYRA: I have two witnesses to be sworn in, please.

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

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

11 MR. AULTMAN: Les Aultman, Jackson, Mississippi.

12 (Witnesses were sworn by Mr. Rogers)

13 MR. TYRA: Mr. Aultman, are you familiar with the petition that has been filed in this  
14 matter and have you prepared exhibits in support of that petition?

15 MR. AULTMAN: Yes.

16 MR. TYRA: Have you testified before this Board on a number of occasions throughout  
17 the years?

18 MR. AULTMAN: Yes.

19 MR. TYRA: Your testimony has been recognized as that of an expert petroleum  
20 geologist. Is that correct?

21 MR. AULTMAN: Yes.

22 MR. TYRA: I would tender Mr. Aultman as an expert petroleum geologist at this point,  
23 please.

24 CHAIRMAN GRIGGS: He is recognized as an expert.

25 MR. TYRA: Mr. Spooner, I'll ask you the same question. Are you familiar with the  
26 petition and the allegations contained therein?

27 MR. SPOONER: Yes.

28 MR. TYRA: Have you also prepared exhibits in support of that petition?

1 MR. SPOONER: Yes.

2 MR. TYRA: Is your resume on file and have you testified a number of times before this  
3 Board?

4 MR. SPOONER: Yes.

5 MR. TYRA: Your testimony has been accepted as that of an expert petroleum engineer?

6 MR. SPOONER: Yes.

7 MR. TYRA: I would ask that Mr. Spooner be recognized at this time as an expert  
8 petroleum engineer.

9 CHAIRMAN GRIGGS: He is so recognized.

10 MR. TYRA: Just a quick history of what has happened in this field. Spooner drilled the  
11 Chavers 3-11 No. 1 Well, Permit No. 15385, on October 10, 2007. It was tested productive from  
12 the 7500 foot Washita-Fredericksburg Sand Oil Pool on November 7, 2007. On August 8, 2008,  
13 this Board issued Order No. 2008-148 which established the Special Field Rules for the East  
14 Lambeth Church Field defining that sand. Thereafter, on August 7, 2008, actually the day before  
15 that hearing, Spooner spudded the Powell Rabon 3-11 No. 1 Well, Permit No. 15711-A-B. It  
16 tested productive on November 22, 2008, from the Cogle Sand Oil Pool. It was drilled on a 40-  
17 acre drilling unit consisting of the East Half of the Northwest Quarter of the Southwest Quarter  
18 and the West Half of the Northeast Quarter of the Southwest Quarter of Section 3, Township 1  
19 North, Range 8 East. We are requesting that Rule 3 be amended to allow for spacing not to  
20 exceed 160 contiguous surface acres under the first docket. We are also requesting that the  
21 Board approve a production unit for that well to consist of 157.59 acres. I understand that there  
22 has been a letter in opposition filed by Mr. Ray L. Strength of March 18, 2009. Loose from the  
23 booklet there is an Exhibit No. 9 that is not as professionally done as the other exhibits. That is  
24 the one that I did. If you will notice in Section 10 the brownish-orange color is the tract of land  
25 that Mr. Strength owns. I'm not sure if he is here today. I see that he is not. I would point out  
26 that the blue line shows the south and east boundary of the proposed field limits. You will see  
27 that his land neither is in the field nor does it abut the field. The green is the drilling unit for the  
28 Powell-Rabon well. Again, his tract neither abuts it nor is in it. The red is the proposed

1 production unit for the Powell Rabon 3-11 well. Again, his tract is neither in the unit nor does it  
2 abut that unit. His letter does indicate that a Mr. Don Harris of Escambia Operating Company  
3 was not informed of the petition but I would point out to the Board that on March 29, 2009,  
4 Mark Terrell who is the Vice-President of Land sent an e-mail to Mr. Masingill and copied me  
5 saying that yes, in fact, they had been informed, that they do have the notice and they do not  
6 oppose what we are requesting today. I would request that the letter of Mr. Strength be admitted  
7 to the record as well as the e-mail from Escambia Operating Company to Mr. Masingill.

8 CHAIRMAN GRIGGS: Both of those are admitted.

9 (Whereupon, the letter and e-mail were received in evidence)

10 LES AULTMAN

11 Appearing as a witness on behalf of Petitioner, Spooner Petroleum Company, testified as  
12 follows:

13 DIRECT EXAMINATION

14 Questions by Mr. Tyra:

15 Q. Mr. Altman, you have prepared exhibits concerning the geology of this field. Turn to  
16 your Exhibit No. 1 and tell us what that shows, please.

17 A. Exhibit 1 shows the field limits and the original drilling units on the Chavers and the  
18 Powell-Rabon wells.

19 Q. The dotted red line, is that the proposed addition to the field?

20 A. That's correct.

21 Q. What is the green line? What does that represent?

22 A. That is the drilling unit for the Chavers 3-11.

23 Q. Which was the original discovery well in this field. Is that correct?

24 A. That's correct.

25 Q. The blue line?

26 A. The blue line is the drilling unit for the Powell-Rabon 3-11.

27 Q. The dotted purple line?

28 A. The dotted purple line is our proposed producing unit for the Powell-Rabon.

- 1 Q. In that regard, turn to your Exhibit No. 2. Tell us what that shows.
- 2 A. Exhibit 2 is our drilling unit in green. Of course, once again in red is our proposed  
3 production unit.
- 4 Q. That is the unit plat with a description on the following page. Is that correct?
- 5 A. That's correct.
- 6 Q. Let's go to your type log which is Exhibit No. 3. Tell the Board and staff what that  
7 shows.
- 8 A. On Exhibit 3 you will see the producing zone with the perforations. This is the Cogle  
9 Sand. This is the first time in this area that we have seen this sand productive. We are  
10 perforated in that.
- 11 Q. You said this is the first time that we have seen that in this area?
- 12 A. In this immediate area.
- 13 Q. Right. You are very familiar with operations in southwest Alabama, are you not?
- 14 A. Yes.
- 15 Q. In fact, this field has the West Foshee, Foshee and Pollard Fields surrounding it?
- 16 A. Yes.
- 17 Q. Were you involved in any of those fields?
- 18 A. Yes. I was involved in the discovery of all of those.
- 19 Q. All right, sir. You have been involved in the discoveries of fields in southwest Alabama  
20 since when, the early 1980's?
- 21 A. Yes.
- 22 Q. Turn to your Exhibit No. 4. Tell us what that shows.
- 23 A. This is a geological map contoured on the Cogle Sand. This is a combination of 3-D  
24 seismic. The faulting on here is basically taken from the 3-D seismic but the structural  
25 points--this is subsurface because the Cogle Sand does not show up on seismic. We have  
26 horizons below it and above it. This is basically subsurface on the Cogle. The faulting is  
27 taken from the 3-D seismic that we have.

- 1 Q. Your 3-D seismic showed you the faults but that 3-D seismic would not show the Cogle  
2 Sand. Is that correct?
- 3 A. We could not see that on the seismic.
- 4 Q. You developed this from the well data. Is that correct?
- 5 A. Yes.
- 6 Q. All right sir. There is an X, a large X that has the number -6304 on this exhibit. What  
7 does that represent?
- 8 A. That's the top of the Cogle Sand.
- 9 Q. The green area. What is that?
- 10 A. The green area is the water level as we know it in the Cogle Sand.
- 11 Q. What is that last known water level?
- 12 A. -6324.
- 13 Q. The Powell 3-12 well is the well that this was drilled in. It was a sidetrack. Is that  
14 correct?
- 15 A. Yes.
- 16 Q. Actually you were looking for the Washita-Fredericksburg, were you not?
- 17 A. Yes. This was a pleasant surprise.
- 18 Q. So the X marks the spot on the top of the formation that you have actually perforated?
- 19 A. Yes.
- 20 Q. You tried to get to the very top of this formation in order to effectively drill the Cogle?
- 21 A. Yes.
- 22 Q. All right sir.
- 23 A. We didn't get to the top of the Cogle as we understand it as you can see from our own  
24 map.
- 25 Q. Turn to your Exhibit No. 5. This is your structural cross section. Define what that  
26 shows.
- 27 A. In the center of the cross section you will see the Cogle Sand and the perforations in it.  
28 We have 20 feet of oil sand as we see it. We do not at this time see a water level in it.

1 You will notice at the base of that there is something that looks wet down below there but  
2 that is a separate sand. We don't think that is the water level in the Cogle Sand. Over to  
3 the left you see in the Chavers well that we had a fault in that well. We can see that fault  
4 on the seismic. We had oil shows in the Massive across that fault which is not in the  
5 Powell Rabon well.

6 Q. This exhibit relates back to the structure map, Exhibit No. 3, does it not?

7 A. Yes.

8 Q. In that this is the A-A' line. Is that correct?

9 A. That's correct.

10 Q. As reflected on the earlier map. In your opinion, based upon what you have seen, is the  
11 Cogle Sand Oil Pool at the interval defined in our petition a separate and distinct  
12 reservoir from all of the pools?

13 A. Yes.

14 Q. Its boundaries are determined by the faulting?

15 A. Yeah, the faulting and the subsurface as we understand it. We do have some well  
16 control. You see there is a Calco well out there that we have some well control in. It's  
17 the well to the north.

18 Q. All right sir.

19 MICHAL SPOONER

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

22 DIRECT EXAMINATION

23 Questions by Mr. Tyra:

24 Q. Mr. Spooner, I'm going to ask you the same question that I asked Mr. Aultman earlier  
25 and that is, are you familiar with operations in southwest Alabama?

26 A. Yes.

27 Q. How long have you been operating in southwest Alabama?

28 A. Since the late 1970's.

1 Q. You are familiar with the fact that the West Foshee, the Pollard and the Foshee Fields  
2 surround our field?

3 A. Correct.

4 Q. Are you familiar with those fields at all?

5 A. Correct. We were involved in the discovery of Foshee and West Foshee and we operated  
6 portions of Pollard Field at one time.

7 Q. You have also prepared exhibits in support of our petition today. Exhibit No. 6, please,  
8 would you go to that.

9 A. Exhibit 6 is a production decline curve for the Powell-Rabon 3-11. The production rates  
10 are shown on the left axis and the dates on the horizontal axis. This well has performed  
11 very well. You can see that we placed it on production in early October. The production  
12 has been flat at 207 barrels, 210 barrels per day, with no water since that time. That is the  
13 green curve on the graph. The black line at the top of the graph which is also just a flat  
14 horizontal line is the flowing tubing pressure which remains constant at 720 psi over this  
15 time frame. The purpose of this production curve is to indicate that the production has  
16 remained flat and the flowing tubing pressure has remained flat. Our conclusion from  
17 that is that we have a very strong water drive in this reservoir which is typical of these  
18 surrounding Lower Tuscaloosa Fields at Foshee, West Foshee, Pollard and Osaka. It  
19 appears here for every barrel of oil that we take out of the reservoir a barrel of water  
20 moves into the reservoir which is maintaining the pressure. That is, in fact, a good thing  
21 for us.

22 Q. Let's look at the next exhibit that would show those daily production rates. I see that on  
23 the last page of the exhibit back in October of 2008 when the well first came on line it  
24 started at 740 and then after about a week it settled at 720 for the flowing tubing pressure,  
25 and it has continued at 720 except for one week in December. It actually went up and  
26 increased. Is that correct?

27 A. That's correct. We are just talking about a few psi's when we are talking about that.

1 Q. This is indicative of the water driven system that you have encountered time and again  
2 down in southwest Alabama.

3 A. Correct.

4 Q. Based upon your experience in this area of southwest Alabama and the well data that you  
5 have on the Powell Rabon 3-11 well, do you have an opinion as to whether there are  
6 sufficient reserves to support the drilling of additional wells in this particular sand in this  
7 field?

8 A. I believe you can see from the structure map that the size of this reservoir is very small.  
9 These are the type reservoirs that unfortunately we are finding now, small reservoirs. I  
10 wish I had this one that would cover the whole page. We do not believe that it justifies  
11 additional wells. We believe that we are at a structural high point in this reservoir, that  
12 we have a very strong water drive and that we can recover the recoverable reserves from  
13 the one well that is sitting on top of the structure.

14 MR. TYRA: I'm going to ask the two of you a series of questions. Mr. Aultman, I'll ask  
15 you first and then Mr. Spooner I'll turn to you. Based upon your experience in this area and the  
16 well data that you have reviewed, is the proposed production from the Powell-Rabon 3-11 well  
17 unit the maximum area that would be efficiently and economically drained by this well? Mr.  
18 Aultman?

19 MR. AULTMAN: Yes.

20 MR. TYRA: Mr. Spooner.

21 MR. SPOONER: Yes.

22 MR. TYRA: Would the approval of the proposed production unit for the Powell-Rabon  
23 3-11 well avoid the drilling of unnecessary wells in the Cogle Sand Oil Pool?

24 MR. AULTMAN: That's correct.

25 MR. SPOONER: Yes.

26 MR. TYRA: Thirdly, would the approval of the proposed production unit for the Powell-  
27 Rabon 3-11 well prevent waste as that term is defined by the laws and statutes of this state and  
28 the Administrative Code of this Board?

1 MR. AULTMAN: Yes.

2 MR. SPOONER: Yes.

3 MR. TYRA: Would the approval of the proposed production unit for the Powell-Rabon  
4 3-11 well protect and enforce correlative rights as to the owners in the proposed unit?

5 MR. AULTMAN: Yes.

6 MR. SPOONER: Yes.

7 MR. TYRA: Finally, we were concentrating on the docket concerning the reformation of  
8 the well but let me ask you the same question as to the amendment of Rules 1, 2 and 3 of the  
9 Special Field Rules for the East Lambeth Church Field. Would the granting of that petition  
10 protect coequal and correlative rights as well as prevent waste as that term is defined?

11 MR. AULTMAN: Yes.

12 MR. SPOONER: Yes.

13 MR. TYRA: I would request at this time that the exhibits to the testimony of Mr.  
14 Aultman and Mr. Spooner as well as that wonderful Exhibit 9 that I prepared be admitted and  
15 made a part of the record.

16 CHAIRMAN GRIGGS: Mr. Tyra, with regard to Exhibit No. 7, was there testimony in  
17 connection with that exhibit.

18 MR. TYRA: Thank you. We will go back to that.

19 MICHAL SPOONER

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

22 DIRECT EXAMINATION

23 Questions by Mr. Tyra:

24 Q. Exhibit 7 is your Form OGB-9. Did you file this in the normal course of business?

25 A. Yes.

26 Q. Review very briefly what it shows.

27 A. This is the first production and retest report. It simply is just a recap of our test results  
28 prior to placing the well on production through permanent production facilities.

1 Q. So that shows a test duration of twelve hours. Is that correct?

2 A. Correct.

3 Q. Your shut-in tubing pressure prior to the test was?

4 A. 810 psi.

5 Q. What was the test rate for the oil?

6 A. 200 barrels per day and 8 Mcf of gas per day.

7 Q. Your choke size used was?

8 A. 7/64 with 727 psi flowing tubing pressure and zero water.

9 Q. Again, this has been filed in the normal course of business with the Oil and Gas Board.  
10 Let's go to Exhibit No. 8 which is your oil PVT fluid study. Did Spooner request that  
11 this be done?

12 A. We requested a PVT study which is to comply with regulations on new field discoveries.

13 Q. This would determine whether the field is actually an oil field or a gas field. Is that  
14 correct?

15 A. That's correct.

16 Q. What was the conclusion of that?

17 A. It's an oil field.

18 Q. It's an oil field. Okay.

19 MR. TYRA: Mr. Griggs, thank you for pointing out that I skipped over those two  
20 exhibits.

21 CHAIRMAN GRIGGS: Okay. All of those Exhibits 1 through 9 are admitted.

22 (Whereupon, the exhibits were received in evidence)

23 MR. TYRA: Mr. Griggs, when Mr. Pearson and I started in this business in the early  
24 1980's there were discoveries of vast areas of productive acreage that would accommodate  
25 several wells. In fact, the Foshee, the West Foshee and the Pollard Fields, all surrounding our  
26 field in the same township and range, had several wells drilled in them. Other than the Little  
27 Cedar Creek Field in Conecuh County, unfortunately, there have not been large fields with  
28 multiple wells discovered lately. Using good 3-D seismic and examining well data and then re-

1 examining well data and then re-examining again, we find more and more that the norm is to find  
2 these small areas, these small bubbles of production, that are just sort of isolated. While we  
3 continue to look for another Little Cedar Creek Field and hope for it more and more we are not  
4 finding it. These discoveries of the small bubbles puts us in a unique situation whereby the  
5 entire structure, if you can get to the top of it, you can drain with one well and you are not in  
6 there making multiple drilling activities because of the small nature of the formation. That is the  
7 situation that we have before the Board today with this Powell Rabon well. The technical data  
8 submitted by these gentlemen and the testimony presented today indicate that there are not  
9 sufficient recoverable reserves to justify drilling other wells into this particular pool because of  
10 the way it is structured, the faults and the last known oil. The technical data and the testimony  
11 also indicate that the entire structure can be drained by this well. We've got the good water  
12 pressure as Mr. Spooner indicated. As the production comes out the water replaces it, pushing  
13 the whole system. So, fortunately Section 9-17-6 of the Code specifically vests in this Board the  
14 powers to establish drainage or production units as it is phrased in Subparagraph 4 of that  
15 section. Section 9-17-12B says that if it will prevent waste and if it will protect and enforce  
16 correlative rights among the owners and producers and if it is necessary to avoid the risks  
17 associated with drilling additional wells the Board can establish production units for oil reserves  
18 up to 160 acres with a 10 percent tolerance. Our request of this Board is that pursuant to Section  
19 9-17-12B and in accordance with the power that you have in 9-17-6 that the proposed production  
20 unit for this Powell Rabon well as described in the petition be approved. We additionally request  
21 once that happens that we have to modify Rules 1, 2 and 3 of those Special Field Rules. At this  
22 time I would tender the witnesses to any questions that the Board or the staff may have.

23 CHAIRMAN GRIGGS: Thank you, Mr. Tyra. Dr. Tew, does the Board have any  
24 questions?

25 MR. ROGERS: Mr. Chairman, we have a couple of things to admit. We have two  
26 affidavits of notice. They relate to the two different items. We would recommend those  
27 affidavits of notice be admitted.

28 CHAIRMAN GRIGGS: They are admitted, Mr. Rogers.

1 (Whereupon, the affidavits were received in evidence)

2 MR. ROGERS: Also, one of the exhibits is unsigned. Mr. McQuillan, which exhibit is  
3 unsigned?

4 MR. MCQUILLAN: That's Exhibit No. 7.

5 MR. ROGERS: That exhibit needs to be signed.

6 MR. TYRA: Certainly.

7 CHAIRMAN GRIGGS: Mr. Pearson.

8 MR. PEARSON: Mr. Tyra, I have a couple of questions directing both your witnesses to  
9 the letter that was received from Mr. Strength that you have admitted into the record.

10 MICHAL SPOONER

11 EXAMINATION BY BOARD/STAFF

12 Questions by Mr. Pearson:

13 Q. Mr. Spooner, would the Powell Rabon well that you are proposing in your petition drain  
14 or in any way effect the Strength acreage as is indicated on Exhibit 9?

15 A. No sir.

16 Q. Okay.

17 LES AULTMAN

18 EXAMINATION BY BOARD/STAFF

19 Questions by Mr. Pearson:

20 Q. Mr. Aultman, same question to you. In your opinion from the standpoint of geology  
21 would there be any way that your Powell Rabon well could influence or drain adversely  
22 in any way Mr. Strength's acreage as indicated on Exhibit 9?

23 A. No.

24 MR. AULTMAN: I wish it was that big.

25 MR. PEARSON: Mr. Tyra, turning your attention northward to the rest of Section 3, do I  
26 understand that y'all have given notice to the owners in Section 3?

27 MR. TYRA: Yes. The affidavit that we submitted gives notice to all mineral owners and  
28 all working interest owners in all of Section 3.

1 MR. PEARSON: Thank you. I don't have any further questions.

2 CHAIRMAN GRIGGS: Any further questions? No further questions. Do we have a  
3 motion on these two items, Item 17 and Item 18?

4 MR. PEARSON: I move that we grant Item 17 and Item 18.

5 CHAIRMAN GRIGGS: Have a motion to grant both items. I second that motion. All in  
6 favor say "aye."

7 (Board members Griggs and Pearson voted "aye")

8 CHAIRMAN GRIGGS: The "ayes" have it. Both of those petitions are granted.

9 MR. TYRA: Thank you.

10 MR. ROGERS: Mr. Chairman and Mr. Pearson, Item 19, Docket No. 4-30-03-7, is a  
11 Motion by the State Oil and Gas Board of Alabama relating to certain lands in Choctaw County  
12 and certain oil pipelines in that area. We have an affidavit signed by an employee of the State  
13 Oil and Gas Board, Ms. Larissa Blake of the Mobile office. We would recommend that this  
14 affidavit by Ms. Blake be admitted into the record in connection with this Motion.

15 CHAIRMAN GRIGGS: That affidavit is admitted, Mr. Rogers.

16 (Whereupon, the affidavit was received in evidence)

17 MR. ROGERS: Considering that the site, the pipeline right-of-way, the easement has  
18 been cleaned up and the soil removed, the contamination eliminated, and that there are no  
19 adverse affects--there was originally some contamination--we recommend that this Motion by  
20 the Board be dismissed.

21 CHAIRMAN GRIGGS: Do we have a motion to that effect?

22 MR. PEARSON: I move that we dismiss that item.

23 CHAIRMAN GRIGGS: Have a motion which I will second. All in favor say "aye."

24 (Board members Griggs and Pearson voted "aye")

25 CHAIRMAN GRIGGS: "Ayes" have it. Motion is dismissed.

26 MR. ROGERS: Mr. Chairman, the last item on the docket is Item 20, Docket No. 3-24-  
27 09-18. This is a Motion by the State Oil and Gas Board of Alabama to amend certain rules  
28 relating to notice. What that Motion does is amend the rules to state that notices of petitions will

1 be filed 25 days prior to the hearing of the petition, that petitions shall be filed with the Board 25  
2 days prior to the hearing of the petition and that exhibits shall be filed at least 20 days prior to the  
3 hearing of the petition. We have submitted copies of that new proposed amendment to members  
4 of the public for review and comment. We would like to admit into the record a copy of the  
5 proposed regulations. These are Exhibits 1 through 4.

6 CHAIRMAN GRIGGS: Exhibits 1 through 4 are admitted.

7 (Whereupon, the exhibits were received in evidence)

8 CHAIRMAN GRIGGS: Any comments? Any comments from the public? Were there  
9 any written comments, Mr. Rogers, in connection with this?

10 MR. ROGERS: No sir. The staff would recommend that the Motion be adopted and the  
11 rules be amended as proposed.

12 CHAIRMAN GRIGGS: Do we have a motion?

13 MR. PEARSON: I move that Item 20 be granted.

14 CHAIRMAN GRIGGS: Have a motion which I will second. All in favor say "aye."

15 (Board members Griggs and Pearson voted "aye")

16 CHAIRMAN GRIGGS: "Ayes" have it. That item is granted. Anything further to come  
17 before the Oil and Gas Board today? Hearing nothing further, this Board is adjourned.

18 (Whereupon, the hearing was adjourned at 12:40 p.m.)

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REPORTER'S CERTIFICATE

STATE OF ALABAMA  
COUNTY OF TUSCALOOSA

I, Rickey Estes, Hearing Reporter in and for the State of Alabama, do hereby certify that on Thursday, March 26, 2009, at the St. Clair County Courthouse, 1815 Cogswell Avenue, Pell City, Alabama, I reported the proceedings before the State Oil and Gas Board in Regular Session; that the foregoing 74 typewritten pages contain a true and accurate verbatim transcription of said proceedings to the best of my ability, skill, knowledge, and belief.

I further certify that I am neither kin or counsel to the parties to said cause, nor in any manner interested in the results thereof.

Rickey Estes  
Hearing Reporter