

1 STATE OIL AND GAS BOARD OF ALABAMA

2 Tuscaloosa, Alabama

3 November 7, 2011

4 Testimony and proceedings before the State Oil and  
5 Gas Board in a Special Session in the Board Room of the  
6 State Oil and Gas Board Building, University of Alabama  
7 Campus, Tuscaloosa, Alabama, pursuant to adjournment, on  
8 this 7th day of November, 2011.

ORIGINAL

9  
10 BOARD

11 Mr. Charles "Ward" Pearson.....Member

12 Mr. Barnett Lawley.....Member

13

14 STAFF

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

17 Mr. S. Marvin Rogers.....Attorney

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

19 Mr. Kirk A. McQuillan..Technical Operations Manager

20 Mr. Butch Gregory.....Engineer

21 Mr. Randy Oglesby.....Geologist

22 Mr. Elbert Patterson.....Engineer

23 Ms. Rhianna Connell.....Paralegal

24

25

*[Handwritten signature]*  
12/15/2011

I N D E X

INDEX OF EXAMINATION

3	WITNESS:	Page:
4	RANDY ALLEN	
5	(ITEM 2) DIRECT EXAMINATION BY MR. WATSON	7
6	(ITEM 2) CROSS-EXAMINATION BY MR. SCOGIN	14
7	FRANCES EVANS	
8	(ITEM 2) DIRECT EXAMINATION BY MR. SCOGIN	19
9	GUS SANDERS	
10	(ITEM 1) DIRECT EXAMINATION BY MR. WATSON	32
11	DANIEL BURNS	
12	(ITEM 1) DIRECT EXAMINATION BY MR. WATSON	49

INDEX OF EXHIBITS

14	OFFERED	Page:
15	(Item 2) Affidavit of Notice was offered	5
16	(Item 1) Affidavit of Notice was offered	28
17	(Item 1) Exhibits 1-10 to the testimony of Mr.	59
18	Sanders was offered	
19	(Item 1) ratifications, both working and royalty	59
20	interest were offered	
21	ADMITTED	
22	(Item 2) Affidavit of Notice was received	5
23	(Item 1) Affidavit of Notice was received	28
24	(Item 1) Exhibits 1-10 to the testimony of Mr.	59
25	Sanders was received	

INDEX OF EXHIBITS (Continuing)

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

ADMITTED

Page:

(Item 1) unit agreement; ratifications, both 60  
working interest owners and royalty and  
overriding royalty interest; as Exhibits 11, 12  
and 13 were received  
(Item 1) Exhibits A, B and C to the testimony of 61  
Mr. Sanders was received

## P R O C E E D I N G S

1  
2 MR. PEARSON: Let the record reflect that the  
3 State Oil and Gas Board is now in session. Dr. Tew, have  
4 the items for the November 7, 2011 Special Board meeting  
5 been properly noticed?

6 DR. TEW: Mr. Pearson and Mr. Lawley, the items  
7 have been properly noticed. The staff has prepared an  
8 agenda of the items to be heard by the Board today.

9 Mr. Rogers, will you call the first item,  
10 please?

11 MR. PEARSON: In the interest of time, we are  
12 going to take up the second item first, which is the item by  
13 Jabsco Oil Operating, LLC. So if they could come forward,  
14 we will take that up at this time.

15 MR. ROGERS: Item 2, Docket No. 11-1-11-03,  
16 petition by Jabsco Oil Operating, LLC.

17 MR. PEARSON: Mr. Watson, you may proceed.

18 MR. WATSON: Mr. Pearson, I'm here representing  
19 Jabsco Oil Operating, LLC. I have one witness and I would  
20 like to have him sworn in, please, sir.

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

23 MR. ALLEN: Randy Allen, Tuscaloosa.

24 (Whereupon, Mr. Allen was sworn in by the  
25 Attorney.)

1                   MR. WATSON: Mr. Pearson, I have prefiled an  
2 Affidavit of Notice in this matter and ask that it be made a  
3 part of the record.

4                   (Whereupon, (Item 2) Affidavit of Notice was  
5 offered into evidence.)

6                   MR. PEARSON: The affidavit will be made a part  
7 of the record.

8                   (Whereupon, (Item 2) Affidavit of Notice was  
9 received into evidence.)

10                  MR. WATSON: This is a petition by Jabsco Oil  
11 Operating, LLC asking the Board to enter an order of force  
12 pooling, without the imposition of the risk compensation  
13 fee, all tracts and interests for a unit for the Dorothy R.  
14 Carmack 9-13 #1 Well that we plan to put back online, that  
15 is a South Half unit, South Half of Section 9, Township 17  
16 South, Range 15 West, Lamar County, Alabama in the Fernbank  
17 Field.

18                  As a point of explanation, and this is in the  
19 petition, let me point out to you that this well ceased  
20 producing when Southern Cross Energy Pipeline stopped  
21 purchasing gas in the area in January, not only from this  
22 well, but from several other wells in the area, they just  
23 stopped buying gas, and leases were lost that were holding  
24 this 320-acre unit together.

25                  The petitioners reacquired all the interest for

1 the necessary leases to put this well back on production.  
2 The only thing we have to do is turn a valve and put it back  
3 in the sales line, with the exception of the interest  
4 outlined in this force pooling petition where we have eight  
5 net mineral acres, approximately 2.5 percent of the unit,  
6 that we do not yet have under our control voluntarily, and  
7 that is what we are asking the Board to force pool today.

8 Randy Allen, you are familiar with this  
9 petition and with the ownership in this South Half of  
10 Section 9, 17 South, 15 West?

11 MR. ALLEN: Yes, sir.

12 MR. WATSON: And you have appeared before this  
13 Board and have on file an affidavit of your qualifications  
14 as a petroleum landman?

15 MR. ALLEN: Yes.

16 MR. WATSON: And that is your capacity with  
17 Jabsco Oil Operating, you are the land manager of Jabsco Oil  
18 Operating; is that right?

19 MR. ALLEN: That is correct.

20 MR. WATSON: All right, sir. I tender Mr. Allen  
21 as an expert petroleum landman for giving testimony,  
22 Mr. Pearson.

23 MR. PEARSON: Any objection?

24 MR. SCOGIN: No.

25 MR. PEARSON: He is so recognized.

1 (ITEM 2) DIRECT EXAMINATION BY MR. WATSON:

2 Q. Would you tell the Board, if you would, Mr. Allen,  
3 about the outstanding unleased interest in this 320-acre  
4 unit?

5 A. Yes, sir. There are two outstanding interests in  
6 this. Ms. Frances Evans owns six net mineral acres, and her  
7 daughter, Ms. Frances Rogers, owns two net mineral acres.

8 Q. All right, sir. And have you made attempts to secure  
9 the interest that was once held by your company for these two  
10 owners in this unit?

11 A. Yes, sir, we have.

12 Q. And have you been successful?

13 A. No, sir.

14 Q. Have you made reasonable attempts to secure that  
15 interest?

16 A. Yes, sir.

17 Q. Tell us about the interest, how it was lost, and what  
18 you have tried to do to gain that interest back.

19 A. The interest was under lease. The lease was taken  
20 back in 2005 when Jabsco reentered this prospect. When the  
21 pipeline was shut-in by us, we had to make a determination on  
22 what we should -- how we should proceed with this being a  
23 marginal well. There were a couple of leases that had very  
24 significant shut-in payments, and we chose not to make those  
25 at that time; and, therefore, we had two leases that expired

1 due to the terms of their -- the leases.

2 Q. What about a force majeure provision in the lease; if  
3 the pipeline shut the production in, wouldn't the force  
4 majeure position kick in?

5 A. Normally, it would, but that clause had been struck  
6 from these leases.

7 Q. Okay. So you didn't have a force majeure. What did  
8 you have, a payment to be made?

9 A. Yes, sir.

10 Q. And did you determine that payment to be -- I think  
11 you have said -- how did you describe that payment?

12 A. It was cost prohibitive in the circumstances that we  
13 were under, such as small interest, very large, what we  
14 considered, too large of a shut-in payment.

15 Q. Okay. Now, what about you offered to re-lease Ms.  
16 Evans' and her daughter's interest?

17 A. Yes, sir.

18 Q. Did you attempt to ratify that 2005 lease that had  
19 expired because of the pipeline shut-in?

20 A. We did offer that as an option, yes, sir.

21 Q. Well, tell the Board about the discourse between you  
22 and Ms. Evans and her daughter in your attempts to secure her  
23 interest.

24 A. Okay. Early on in talking with Ms. Evans back in  
25 June of this year, I sent her a letter setting out -- set out

1 several options that we would be willing to offer. One would  
2 be ratifying the lease, another would be taking a lease with  
3 different terms under a different form or participating in  
4 the unit. I talked with Ms. Evans a few days later, talked  
5 with -- about that, and we talked about re-leasing under the  
6 same lease term.

7 MR. SCOGIN: Mr. Chairman.

8 MS. EVANS: I can't hear him.

9 MR. SCOGIN: We are not able to hear.

10 MR. PEARSON: Speak up a little bit.

11 MR. ALLEN: Okay. Yes, sir.

12 A. Okay. When negotiations first started back in  
13 June 16th of 2011 when I sent Ms. Evans a letter offering her  
14 three options. One would be ratify the existing lease,  
15 another would be to lease using different lease forms and  
16 different terms, and another one just would be to participate  
17 in the well as a working interest owner.

18 Ms. Evans called me on the 20th, we talked about  
19 the different options, she was not interested in those  
20 options. I offered to re-lease her at that time using the  
21 same lease form, same terms as the prior lease. She declined  
22 that and said that she had a new lease that was much tighter  
23 and that she would lease under that lease.

24 We actually made an agreement around July 1st  
25 that we would lease under the same lease bonus, same royalty,

1 same term, contingent upon us agreeing to her new lease form.

2 She would not send me a lease form. She said  
3 she would only send that to an attorney, so she had  
4 Mr. Scogin, her attorney, send a copy of that to John Tyra.

5 I got with Mr. Tyra. We met several weeks later  
6 on that, went over the terms of the lease, and we made a  
7 determination that her lease form was not one we were willing  
8 to accept. We communicated that on several occasions, and we  
9 got to the point that we just didn't feel like we were moving  
10 forward. And at that point, we decided we would force pool  
11 this interest.

12 Q. Now, Mr. Allen, in looking or having your lawyer look  
13 at the terms of the lease that Ms. Evans and her daughter  
14 offered, what were the conclusions that you reached with  
15 your -- with the aid of your attorney relative to the  
16 operational aspects of that lease; was that a lease that your  
17 company was going to be able to comply with had you executed  
18 it?

19 A. No, sir. We did not feel we could comply with all  
20 the terms of that lease and we made that decision based -- we  
21 are not going to take a lease or make an agreement if we do  
22 not feel like we can abide by it 100 percent.

23 Q. So what was the major objection to that lease from an  
24 operational standpoint, Mr. Allen?

25 A. One was the payment of royalties which was a much

1 shorter time period and state law requires a shorter time  
2 period than we could agree to do.

3 Q. In other words, once the purchaser paid you, in order  
4 to turn everything around and run that payment through your  
5 distribution system and get it out to the royalty owners, in  
6 this case, Ms. Evans and her daughter, you are saying that  
7 the system was not set up to comply with that so that would  
8 have put you in default of her lease?

9 A. Yes, sir, that is correct.

10 Q. And knowing that going in, that was one of the  
11 reasons you didn't sign that lease?

12 A. Yes, sir, that is correct.

13 Q. All right. Have I accurately described how this well  
14 stopped producing?

15 A. I'll expand on that a little bit.

16 Q. All right.

17 A. Southcross, a midstream purchaser, was actually  
18 their -- Tennessee Gas stopped purchasing their gas;  
19 therefore, they had no market for the gas in that area, and  
20 in turn, we had no market for the gas in that area. And it  
21 took in excess of probably ten months to get that back  
22 online. Now that it's back online, we are trying to move  
23 forward and get everybody back in production.

24 Q. How many wells were affected by that shutdown that  
25 you've just described?

- 1 A. For Jabsco, eight.
- 2 Q. And how many of those wells do you have back on  
3 production?
- 4 A. Six.
- 5 Q. Now, what is going to be required to put this well  
6 back on -- this well that we are talking about, the Dorothy  
7 Carmack 9-13 #1 Well, what is going to be required to put it  
8 back on production?
- 9 A. Once we have 100 percent control of the interest,  
10 then we would just have to turn the valve back on and it  
11 would start producing.
- 12 Q. Now, will Ms. Evans be charged any cost associated  
13 with putting this well back on production?
- 14 A. No, sir.
- 15 Q. So will her interest, once the well is turned back  
16 on, if this Board sees fit to force pool so we can move  
17 forward, she would have a 3/16th royalty from date of first  
18 production, correct?
- 19 A. Yes, sir.
- 20 Q. And does she have any cost to bear?
- 21 A. Other than normal monthly costs, no, sir.
- 22 Q. So if there is nothing -- wouldn't she then pick up  
23 the 13/16ths working interest?
- 24 A. Yes, sir, that is correct.
- 25 Q. So that Ms. Evans, if this Board force pooled this

1 interest, would have 100 percent?

2 A. Yes, sir.

3 Q. Less the monthly operating expenses attributable to  
4 her interest?

5 A. Yes, sir.

6 Q. And then she would be treated like any other working  
7 interest owner for that 13/16ths; is that right?

8 A. That is correct.

9 Q. Without this force pooling order, can Jabsco produce  
10 this well?

11 A. No, sir.

12 Q. And are you ready, willing and able to put this well  
13 on production?

14 A. Yes, sir.

15 Q. And you have all the other owners in agreement to put  
16 this well on production except for this eight acres that we  
17 have described?

18 A. That is correct.

19 Q. Would the granting of this petition prevent waste and  
20 protect the correlative rights of all the owners?

21 A. Yes, sir, it would.

22 MR. WATSON: I tender our witness to Mr. Scogin  
23 for any questions he has.

24 MR. PEARSON: Mr. Scogin.

25 MR. SCOGIN: Yes, sir.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

(ITEM 2) CROSS-EXAMINATION BY MR. SCOGIN:

Q. Mr. Allen, I want to make sure I understand the sequence of events. In 2005, Jabsco took a lease from Ms. Evans on this particular well unit?

A. That is correct.

Q. And produced the Carmack well for five or six years under that lease?

A. That is correct.

Q. And the royalty was paid pursuant to the terms of the lease?

A. That is correct.

Q. Then the production ceased and Ms. Evans' lease eventually expired?

A. That is correct.

Q. And I know there were negotiations that went back and forth that you discussed, a new lease form that was sent to Mr. Tyra. But in the end, Ms. Evans offered to re-lease this same interest using the same lease form that was entered into in 2005?

A. That is correct.

Q. Okay. Are there any other -- -- and as I understand it, Jabsco has gone out and re-leased a number of different people once those leases were lost because of the pipeline issue?

- 1 A. That is correct.
- 2 Q. Would those leases that were reacquired, were they  
3 done so using basically the same lease form that was in  
4 effect from 2005 or whenever?
- 5 A. That is correct.
- 6 Q. Okay. So this is the only lease where the mineral  
7 owner has offered to re-lease using the exact same lease form  
8 that was produced under that Jabsco has not agreed to do?
- 9 A. That is correct.
- 10 Q. As far as if this interest is force pooled as  
11 Mr. Watson asked you, Ms. Evans will actually be getting  
12 100 percent of her fraction of interest from production less  
13 the operating costs?
- 14 A. That is correct.
- 15 Q. I understand that Jabsco intends to re-complete this  
16 well in another formation?
- 17 A. Yes, sir.
- 18 Q. What would happen to Ms. Evans at that point, would  
19 she still receive 100 percent? Would Jabsco consider the  
20 Carmack well as being paid out at that point after  
21 re-completion into the new formation?
- 22 A. That, I can't answer without some conversation with  
23 other members. It's my understanding that we are trying to  
24 force pool for both of those things, to get it back online  
25 and a re-completion. So it would be my understanding that

1 she would be treated as force pooled until those events  
2 occur.

3 MR. WATSON: May I attempt to answer that  
4 question for you, Mr. Scogin? No cost will be incurred to  
5 put the well back on production for the producing formation  
6 that is now producing. If that producing formation ceases  
7 to be economic, then they are looking at re-completing in  
8 another zone.

9 At that point, Ms. Evans will be treated like  
10 any other working interest owner, she would receive an AFE  
11 for those costs to re-complete in that zone, and she would  
12 be given an option to either agree to that or not agree to  
13 that.

14 MR. SCOGIN: But as I understand it then, the  
15 Carmack Well, we would be going into basically a different  
16 accounting situation, is what you are saying, I believe?

17 MR. WATSON: Well, there would be additional  
18 costs to produce additional gas. And if that were  
19 successful, that would be an additional cost added onto that  
20 well. The well is paid out. That is the reason she is  
21 entitled to 100 percent from the zone that is now producing.  
22 And I don't think that Jabsco would be trying to re-complete  
23 in a zone unless it could make gas and more money for both  
24 the company and Ms. Evans. And, of course, she would be  
25 required to pay her pro rata share of that as a working

1 interest owner of those costs.

2 MR. SCOGIN: So the well would not be considered  
3 paid out once new additional re-completion costs were  
4 undertaken?

5 MR. WATSON: That is right.

6 MR. PEARSON: And we agree, gentlemen, we are  
7 talking about a legal issue as to the effect of the force  
8 pooling order. Is there any depth or formation limitation  
9 in the petition to force pool?

10 MR. WATSON: No, sir, but there is a zone  
11 mentioned in here which has, in fact, a definition by depth,  
12 is producing now from the Lewis and the attempted  
13 re-completion will be in the Millerella.

14 MR. PEARSON: I see.

15 MR. WATSON: Which I think is shallower than the  
16 Lewis. As you know, there would be a perforation and  
17 testing of the zone in the existing wellbore.

18 MR. SCOGIN: That is all I have.

19 MR. PEARSON: Anything else, Mr. Scogin?

20 MR. SCOGIN: Not on cross. I do have Ms. Evans  
21 here who would need to be sworn in. She would like to make  
22 a statement to the Board.

23 MR. PEARSON: Any redirect?

24 MR. WATSON: No, sir, if we have answered the  
25 questions.

1                   MR. PEARSON: Hold on one second. We have a  
2 production question.

3                   MR. ROGERS: Our question is: Who are the  
4 current nonconsenting owners? In the notice, there were  
5 four owners. Are there only two nonconsenting owners at  
6 this time?

7                   MR. ALLEN: Yes, sir, that is correct.

8                   MR. ROGERS: What are their names?

9                   MR. ALLEN: Ms. Frances Evans and Ms. Frances  
10 Rogers.

11                  MR. ROGERS: What is the outstanding interest in  
12 terms of acres and percent?

13                  MR. ALLEN: About eight total acres,  
14 2.5 percent.

15                  MR. ROGERS: Thank you.

16                  MR. WATSON: The parties -- we amended the  
17 petition once the leases came in from Ann Wells Rogers and  
18 Ann Hope Wells. They leased.

19                  MR. PEARSON: What is the royalty percentage  
20 under the old 2005 lease?

21                  MR. ALLEN: 1/4.

22                  MR. PEARSON: Mr. Scogin, are you ready to  
23 proceed?

24                  MR. SCOGIN: Yes, sir. Ms. Evans, I believe,  
25 needs to be sworn in.

1                   MR. ROGERS: If you would stand and state your  
2 name and address, Ms. Evans. State your full name and your  
3 address.

4                   MS. EVANS: I'm Ms. Frances Evans, 2236 Pelham  
5 Drive, Houston, Texas 77019.

6  
7                   FRANCES EVANS,  
8 having been first duly sworn, was examined and testified  
9 as follows:

10                   MR. ROGERS: Thank you.

11  
12 (ITEM 2) DIRECT EXAMINATION BY MR. SCOGIN:

13           Q.        Ms. Evans, state your name, please.

14           A.        I am Ms. Frances Pope Evans.

15           Q.        Of course, you have already given your address. Are  
16 you a mineral owner in the Carmack unit?

17           A.        Yes.

18           Q.        Okay. And you have not leased your interest to  
19 Jabsco to this point?

20           A.        Correct.

21           Q.        And, of course, you have heard the testimony of  
22 Mr. Allen concerning the negotiations that went back and  
23 forth between you and Mr. Allen and I guess another member of  
24 Jabsco?

25           A.        I have heard it, but it's not accurate.

1 Q. Okay. Have you offered to lease to Jabsco using the  
2 exact same lease form that was used in 2005 for this  
3 particular well; have you made an offer to Jabsco to re-lease  
4 using that lease?

5 A. Yes.

6 Q. Have you prepared a statement that you would like to  
7 give to the Board today?

8 A. Yes.

9 Q. Okay. If you would go ahead and --

10 A. Good morning. Thank you for the opportunity of  
11 speaking to the Board. Please put this on record. As a  
12 long-time royalty owner, I feel strongly about the rights of  
13 the royalty owner. I have used my lease forms with many  
14 companies and none have objected before Jabsco did.

15 To begin, in May 2005, Jabsco accepted my lease  
16 form, a Producer's 88 with a rider, on the Dorothy Carmack  
17 9-13.

18 On February of 2011, I received a letter from  
19 Jabsco saying due to pipeline problems they were going to  
20 shut-in this well. I never received a shut-in payment as  
21 specified in my lease. Jabsco never formally shut-in this  
22 well, and the lease was considered terminated.

23 Next, I received calls from Randy Allen offering  
24 me the options of lease, to participate, or being force  
25 pooled. I then sent them my lease form through Mr. Scogin,

1           which I am currently using, and has just been accepted by a  
2           company, and they sent it to John Tyra.

3                        Jabsco then said it was burdensome and asked me  
4           to add an amendment that would allow them to pay royalties  
5           within 75 days at the end of the calendar month when sales  
6           were made.

7                        I must say at this point to the Board, timely  
8           payments are important to royalty owners and it has been my  
9           very painful experience to find that some Alabama companies  
10          are not only not paying timely payments, they are not paying  
11          payments at all.

12                      I refused to add this amendment because I did  
13          not think it was right. Again, Jabsco presented me with the  
14          usual options and kept pushing me to participate. The best  
15          advice I ever got in all business was from a Shell landman  
16          who told me never participate unless you have an oil/gas  
17          accountant, and I do not have an oil and gas accountant as of  
18          the present.

19                      Next, and this is most important, I offered to  
20          lease again using this same exact lease with rider that  
21          Jabsco signed and had been in effect for six years of  
22          production on the Carmack well. Jabsco refused. How could  
23          they turn this down? How can they say they have tried to  
24          lease in good faith? This exact same lease was previously  
25          approved and implemented by Jabsco. Operators should not be

1 allowed to dishonor or renege on a lease that they have  
2 signed.

3 Mr. Tom Watson sent a letter to Mr. Marvin  
4 Rogers saying that Jabsco had made a good faith effort to  
5 lease my interest. This is totally untrue. I have made  
6 every effort to lease with Jabsco. They have abused my  
7 rights as a royalty owner and reneged on a lease form they  
8 signed in 2005. Thank you.

9 Q. (BY MR. SCOGIN:) And as a result, Ms. Evans, you are  
10 opposing this petition to force pool?

11 A. Yes.

12 MR. SCOGIN: That is all I have.

13 MR. PEARSON: Let me ask a couple of questions,  
14 Mr. Allen.

15 MR. ALLEN: Yes, sir.

16 MR. PEARSON: I believe your testimony was that  
17 Jabsco attempted to have the 2005 oil and gas lease ratified  
18 by Ms. Evans?

19 MR. ALLEN: That is correct.

20 MR. PEARSON: Is that something that occurred,  
21 it didn't happen, and then Jabsco backed off of that?

22 MR. ALLEN: That was an option that was  
23 presented to Ms. Evans. She declined that offer. We  
24 also -- to elaborate on that, we also offered to lease her  
25 using the same 2005 lease form under the same terms, the

1 exact same terms except for the date was, I believe, the  
2 only change to that lease, but she declined that and said  
3 she was no longer using that lease form, she had a new lease  
4 form.

5 MS. EVANS: Could I ask him to repeat that? I  
6 cannot hear. I'm sorry.

7 MR. PEARSON: I'll try to summarize it, Ms.  
8 Evans. I would like to know -- I'm trying to get to the  
9 bottom of what appears to be a discrepancy in the testimony.

10 He has said that they submitted to you the old  
11 2005 lease to be ratified with the exact same terms and  
12 conditions, but that you declined to do so in favor of your  
13 newer lease form; is that correct?

14 MS. EVANS: No.

15 MR. SCOGIN: He's talking about early on, not  
16 what happened --

17 MS. EVANS: The first lease form -- wait a  
18 minute, I'm sorry. Would you say that again?

19 MR. PEARSON: Yes. I'm asking you: Jabsco has  
20 testified that they offered to you to have you ratify the  
21 old lease form, the 2005 lease form, and they have testified  
22 that you declined to do that. Is that correct?

23 MS. EVANS: I don't understand.

24 MR. SCOGIN: Early on they asked for  
25 ratification.

1 MS. EVANS: Is ratification meaning a lease?

2 MR. SCOGIN: No, recognizing that lease again  
3 and one of the reasons --

4 (Conversation between Mr. Scogin and Ms. Evans  
5 held out of the hearing of the reporter.)

6 MS. EVANS: We came back with the original lease  
7 form, am I answering your question, that we signed -- that I  
8 signed in 2005. I'm not quite sure.

9 MR. PEARSON: Is the lease form being proposed  
10 to Jabsco by Ms. Evans different than the 2005 lease form?

11 MR. SCOGIN: At this time, no, she is willing to  
12 sign the exact same form that was entered into in 2005.

13 I think what Mr. Allen is talking about is  
14 correct. There was discussion about a ratification of that  
15 2005 lease form. Ms. Evans wanted to use her updated lease  
16 form. The lease form was sent to Mr. Tyra, it was rejected.  
17 After that is when Ms. Evans said okay, I will re-sign the  
18 2005 lease form exactly like it was.

19 MR. PEARSON: But at this point, that is not  
20 acceptable to Jabsco, have I got that correct?

21 MR. ALLEN: Yes, sir. We evaluated her new  
22 lease form and declined that one. We went back and  
23 reevaluated the old lease and determined -- that's how we  
24 got to where we are now. By the terms of that lease, we  
25 lost that lease by circumstances beyond our control that we

1 had no control over, and we did not want to be put in that  
2 position again, so we respectfully declined to use that  
3 lease form, yes, sir.

4 MR. PEARSON: Mr. Scogin and Mr. Watson, are  
5 both parties in agreement with the old lease form, that the  
6 old lease has expired?

7 MR. WATSON: Yes.

8 MR. SCOGIN: Yes, sir.

9 MR. ALLEN: Yes, sir.

10 MR. PEARSON: And am I correct, Mr. Scogin, that  
11 the old lease expired by virtue of the operation of a  
12 provision that was in the rider that was requested by Ms.  
13 Evans?

14 MR. SCOGIN: Yes, sir.

15 MR. PEARSON: Ms. Evans, being mindful of  
16 royalty owner rights, this Board is very much concerned  
17 about landowners and royalty owner rights; however, the  
18 force pooling statute exists just for this occasion where  
19 the two parties cannot come to terms on the specifics of an  
20 agreement. I move we take a recess for a few minutes.

21 The Board is going to be in recess for about  
22 ten minutes.

23 (Recess taken.)

24 MR. PEARSON: Let the record reflect that the  
25 State Oil and Gas Board is back in session.

1           Before we proceed, Mr. Allen, for the benefit  
2 of Jabsco Oil, be mindful of 9-17-33, which is the Alabama  
3 statute that addresses the payment of royalties and the  
4 timeliness of that.

5           Ms. Evans, they are required under the statute  
6 to pay you within 60 days, in most events, and six months  
7 after first sales, if that were applicable.

8           Do I hear a motion?

9           MR. LAWLEY: I make a motion to grant the  
10 petition for force pooling.

11          MR. PEARSON: All in favor say "aye."

12          MR. LAWLEY: Aye.

13          MR. PEARSON: The motion is granted.

14          MR. WATSON: Mr. Pearson, before we move on to  
15 the next thing, might I say that we want to be very  
16 respectful to Ms. Evans, who is a personal friend of mine,  
17 we are not going to try to do anything to try to upset her.  
18 We brought to her attention the fact that this pipeline had  
19 shut-in and the wells went off production, and we have done  
20 everything we could, and I think that she will be in good  
21 stead once this well goes back on production. Thank you.

22          MR. PEARSON: Thank you, Ms. Evans.

23          MR. ROGERS: Mr. Chairman, Mr. Lawley, the next  
24 item in is Item 1, Docket No. 9-27-11-15C, petition by EOR,  
25 LLC to unitize a partial field-wide unit for the West Falco

1 Field Unit.

2 MR. WATSON: Y'all stand up and this gentleman  
3 will get you sworn in.

4 Mr. Pearson, I'm Tom Watson representing EOR,  
5 LLC, and I have two witnesses and I would like to have them  
6 sworn in, please, sir.

7 MR. PEARSON: Please proceed.

8 MR. ROGERS: Gentlemen, state your names and  
9 addresses.

10 MR. SANDERS: Gus Sanders, 312 Hillchase Drive,  
11 Madison, Mississippi.

12 MR. BURNS: Daniel Burns, 128 Ricker Avenue,  
13 Santa Rosa Beach.

14 MR. ROGERS: What state?

15 MR. BURNS: Florida.

16 (Whereupon, Messrs. Sanders and Burns were  
17 sworn in by the Attorney.)

18 MR. ROGERS: Thank you.

19 MR. PEARSON: Is there anyone here opposing or  
20 speaking on behalf of the parties in interest other than the  
21 petitioner?

22 (No response.)

23 MR. PEARSON: Let the record reflect that there  
24 is no one opposing this petition.

25 Mr. Watson, before you proceed, in the booklet

1           that you have just handed us, are these the same technical  
2           exhibits that you have prefiled?

3                     MR. WATSON:  Yes, sir, just put them in booklet  
4           form and had the original signed.

5                     Mr. Chairman, I have prefiled an Affidavit of  
6           Notice in this matter and ask that it be made a part of the  
7           record.

8                     (Whereupon, (Item 1) Affidavit of Notice was  
9           offered into evidence.)

10                    MR. PEARSON:  The affidavit is admitted.

11                    (Whereupon, (Item 1) Affidavit of Notice was  
12           received into evidence.)

13                    MR. WATSON:  We are here on behalf of EOR, LLC  
14           today asking the Board to establish a partial field-wide  
15           unit in the West Falco Field in Covington County, Alabama,  
16           to be known as the West Falco Field Unit.

17                    This is a 320-acre unit consisting of two  
18           governmental quarter sections, the Southwest Quarter of  
19           Section 16 and the Southeast Quarter of Section 17, all in  
20           Township 1 North, Range 14 East, Covington County in the  
21           West Falco field.

22                    We will be asking the Board to unitize the  
23           Haynesville Formation, which was defined in the West Falco  
24           Field by this Board, and we are also going to ask that you  
25           name EOR, LLC as the unit operator of this unit.

1           I will present in the course of our  
2 presentation today ratifications of royalty and overriding  
3 royalty interest in excess of 66 and two-thirds, and working  
4 interest owner interest of 100 percent, based on EOR's  
5 100 percent ownership in this proposed unit.

6           Now, this field, as the evidence will show, has  
7 one producing well and a saltwater disposal well and a  
8 second well inside the unit area. EOR acquired this field,  
9 tried to put it back on in primary production, it was  
10 producing about 17 barrels of oil a day, as the evidence  
11 will show, and it is clear that this field is a prime  
12 example of preventing waste. If a waterflood can be  
13 implemented as approved by this Board, additional oil would  
14 be recovered that would not otherwise be recovered without  
15 the institution of a waterflood.

16           This company is prepared to do that, prepared  
17 to institute the waterflood and to recover additional oils  
18 in excess of the cost of the unit operations.

19           Now, there is a little twist in this unit. The  
20 twist is that the federal government owns 160 acres out of  
21 the 320. And we have been -- or I have been and Mr. Daniel  
22 Burns has been involved with the Office of the BLM out of  
23 Jackson, Mississippi as late as, or as early as 5 something  
24 this morning when the BLM sent us a ratification approving  
25 this unit.

1                   Now, I don't have any good explanation as to  
2 why we got the ratification this morning. I would like to  
3 have had it last week or week before last, but we got it  
4 this morning.

5                   One of the things, Mr. Pearson, has been the  
6 understanding of the jurisdictions of the two agencies. And  
7 I have tried my best to put in this unit agreement the  
8 recognition of the fact that we do have a federal position,  
9 but it is subservient to the State's position, and that is  
10 the State's authority as it relates to units in Alabama. I  
11 will go through that when we get to the unit agreement.

12                   But, first, if I could, I would like to qualify  
13 my petroleum geologist, Mr. Gus Sanders.

14                   Mr. Sanders, if you appeared before this Board,  
15 it's been some years ago, but I would like for you to give  
16 the members of the Board and staff your educational  
17 background and your work experience.

18                   MR. SANDERS: Well, actually, I'm a petroleum  
19 engineer.

20                   MR. WATSON: Petroleum engineer.

21                   MR. SANDERS: I got a BS degree from Mississippi  
22 State University and a master's degree from University of  
23 Texas, both in petroleum engineering. My first job was with  
24 Gulf Oil where one of my positions with Gulf Oil was an  
25 enhanced recovery engineer. And since that time, I have

1 worked for several medium and small companies, and presently  
2 I am employed, self-employed as a consulting petroleum  
3 engineer.

4 MR. WATSON: And in that capacity as a petroleum  
5 engineer, not only did I mispronounce your name yesterday, I  
6 gave you a new title today as a geologist, it's hard for me  
7 to tell a geologist from an engineer sometimes, Gus. In  
8 that capacity, you have worked with EOR, LLC in putting  
9 forth this unit proposal; is that correct?

10 MR. SANDERS: That is correct.

11 MR. WATSON: And will you be the individual in  
12 charge of implementing this secondary recovery program or  
13 enhanced recovery program?

14 MR. SANDERS: Yes, I will.

15 MR. WATSON: All right, sir. And you have  
16 prepared exhibits today in support of this unit, have you  
17 not?

18 MR. SANDERS: Yes, I did.

19 MR. WATSON: I would tender Gus Sanders as an  
20 expert petroleum engineer for the purpose of giving  
21 testimony, Mr. Pearson.

22 MR. PEARSON: He is so recognized.

23 MR. WATSON: I have handed up to you gentlemen a  
24 booklet of exhibits, the same exhibits that were prefiled,  
25 we just put them in a little spiral bound notebook for ease

1 of reference.

2

3

GUS SANDERS,

4

having been first duly sworn, was examined and testified

5

as follows:

6

7

(ITEM 1) DIRECT EXAMINATION BY MR. WATSON:

8

Q. Turn, if you would, Mr. Sanders, to the first exhibit

9

and tell us what is shown on that exhibit, please, sir.

10

A. This is a map showing the field limits of West Falco

11

Field. There are four wells that have been drilled inside

12

the field limits. The 17-8 Well was drilled as a dry hole.

13

The 17-9 and the 16-14 wells were drilled as producers. And

14

the 21-1 well was drilled as a dry hole, and subsequently

15

completed in the Tuscaloosa as a saltwater disposal well, and

16

EOR is presently using that as a saltwater disposal well.

17

Q. And that saltwater would be being produced from the

18

17-9 #1 Well; is that right?

19

A. That is correct.

20

Q. Is the 16-14 #1 producing anything now?

21

A. No, it's not.

22

Q. All right, sir. Turn to your Exhibit 2, Mr. Sanders,

23

and tell us what is shown there, please.

24

A. Okay. This map is the same as the previous exhibit

25

except it has the Proposed West Falco Partial Field-Wide Unit

1 in it, and which contains the 17-9 Well and the 16-14 Well.

2 Q. So it's a 320-acre unit in total, right?

3 A. That is correct.

4 Q. All right. Now, now that we have described the unit  
5 area, and I read those into the record as the Southwest  
6 Quarter of 16 and the Southeast Quarter of 17 constituting  
7 the 320 acres, what formation are we proposing to unitize?  
8 And we will look at your Exhibit 3-Revised for that.

9 A. It's the Haynesville Formation.

10 Q. And define, using this log, the Haynesville Formation  
11 that we are proposing to unitize.

12 A. The top of the unitized interval is at 13,010 feet  
13 and the bottom of the unitized interval is at 13,074 feet.  
14 This is identical to the definition of this oil pool in the  
15 Special Field Rules.

16 Q. All right. So when the Board established West Falco,  
17 this was the type log used for establishing the oil pool and  
18 now we are adopting that same definition of that oil pool for  
19 the unitized interval?

20 A. Correct.

21 Q. All right. Look at Exhibit Number 4, which is a log  
22 on the second well and tell us what is shown there, please,  
23 sir.

24 A. This is a log of the 16-14 Well and this is  
25 comparable to the interval shown on the previous log. The

1 correlation shows the top of the unitized interval at 12,991  
2 and the bottom at 13,050.

3 Q. But we are not talking about two pools here, we are  
4 talking about one pool, Haynesville's Oil Pool for the  
5 purpose of this unitization; is that right?

6 A. That is correct.

7 Q. All right. Your next exhibit, Exhibit 5-Revised is a  
8 structure map, and let's describe that structure map to the  
9 Board, please, sir.

10 A. Okay. This is a structure map based on the top of  
11 the Haynesville Formation. It's based on well data from the  
12 four wells shown on the map. The structure has -- in the  
13 unit, has a more or less East-West orientation with a little  
14 bit of -- the West end is toward the North and the South end  
15 is toward the South.

16 Q. Okay. And when you mapped this and you include the  
17 21-1 saltwater disposal well, there appears to be a saddle  
18 between the structure that is producing the oil and the  
19 structure that the dry hole was drilled on for the 21-1 Well;  
20 is that right?

21 A. Yeah, that is correct. The saddle is based on the  
22 fact that the 16-14 Well and the 21-1 Well have similar  
23 structural positions, but there were no hydrocarbons in the  
24 21-1 Well, so I felt that indicated that there was a saddle  
25 there.

1 Q. All right. Now that you have depicted the structure,  
2 let's look at your Isopach of this Haynesville Oil Pool that  
3 you are proposing to unitize. Describe that as it is shown  
4 on Exhibit 6, please, sir.

5 A. Okay. The cutoffs I used for calculating pay were  
6 50 percent water saturation and 8 percent porosity. And this  
7 map is based on the two points that are indicated, 24 feet  
8 for the 16-14 Well and 28 feet for the 17-9 Well.

9 Q. Okay.

10 A. And this reservoir is approximately 4,000 acre-feet.

11 Q. All right. Now, you have a cross-section which is  
12 your Exhibit 7. Tell us about that cross-section.

13 A. Okay. First, I would like to indicate that there was  
14 an omission, inadvertent omission on this. This line  
15 represents the subsea elevation of minus 12,760 feet, which  
16 the measured depth on the log of 12,995 feet on the 17-9 Well  
17 corresponds to that depth, and on the 16-14 Well, the  
18 measured depth of 12,990 feet corresponds to that.

19 MR. PEARSON: Can you give me that footage again  
20 that they correspond to?

21 MR. SANDERS: 12,760.

22 MR. PEARSON: Thank you.

23 Q. (BY MR. WATSON:) That is a subsea depth on the  
24 Jeffers 17-9, right?

25 A. It's for both of them.

1 Q. For both of them, subsea depths of minus 12,760,  
2 okay.

3 A. The one thing you can notice on this cross-section is  
4 that it's my interpretation that the upper sand in the 16-14  
5 Well is shaled out in the 17-9 Well.

6 Q. And what is the significance of that, Mr. Sanders?

7 A. Well, that means that in the 17-9 Well, the top of  
8 its formation is actually shale instead of sand.

9 Q. Okay. And how thick is that shale in that 17-9 Well?

10 A. It appears to be about 15 feet.

11 Q. Okay. All right. Let's look at your Exhibit Number  
12 8. Having now defined the area of the unit and having  
13 defined the pool to be unitized. And in quantifying that  
14 pool in your Exhibit 6 and telling the Board that that  
15 contains about 4,000 acre-feet, let's look at your Reserve  
16 Study, which is your Exhibit 8. And I take it that we are  
17 going to look at this Reserve Study in connection with the  
18 appendices in this booklet, the decline curves that are in  
19 that appendix; is that correct?

20 A. That is correct.

21 Q. All right, sir. Tell us then what you have  
22 calculated in this Reserve Study.

23 A. Okay. At the beginning, on the top half of the page,  
24 there is a table that shows some well data. It indicates  
25 that the 17-9 Well has 28 feet of pay. The initial

1 production was 478 barrels of oil per day with no water. And  
2 the cumulative production was 347,978 barrels of oil,  
3 649,929 barrels of water. And the final production in  
4 November of 2008 was 12 barrels of oil per day and  
5 297 barrels of water per day.

6 Q. Okay. We are going to come back and talk about 2008  
7 in just a minute. Let's go ahead and describe the parameters  
8 for the 16-14 Well.

9 A. The 16-14 Well has 24 feet of pay. Its initial  
10 production was 90 barrels of oil per day and 127 barrels of  
11 water per day. Its cumulative was 162,662 barrels of oil,  
12 754,317 barrels of water. And its final production was 7  
13 barrels of oil per day and 142 barrels of water per day in  
14 May of 2006.

15 Q. In your next asterisk note there, you have put the  
16 Paramount-Jeffers 17-9 was returned to production in July of  
17 2011; is that correct?

18 A. That is correct.

19 Q. And what was the production rate that you achieved in  
20 July of 2011?

21 A. It was producing around 17 barrels of oil per day and  
22 300 barrels of water per day.

23 Q. Between November of 2008 and July of 2011, did EOR,  
24 LLC acquire this field?

25 A. Yes.

1 Q. All right. Up until 2008 EOR, LLC had no operational  
2 control or connection with this field, did they?

3 A. No.

4 Q. All right, sir. Now, in using the Net Pay Isopach,  
5 let's go forward and describe the formula that's at the  
6 bottom of this page that you used in determining the  
7 reserves.

8 A. Okay. The next step is calculating the original oil  
9 in place. I determined that the average water saturation for  
10 the reservoir was 32 percent, the porosity was 15 percent,  
11 and I estimated that the formation volume factor was 1.1  
12 reservoir barrel per stock tank barrel. And in the -- using  
13 the oil in place formula, I determined that the original oil  
14 in place was 719 barrels of oil per acre-foot. And when you  
15 consider a reservoir volume is 4,000 acre-feet, that comes  
16 out to be about 2.9 million barrels of oil originally in  
17 place.

18 Q. Okay. Let's go onto your Page 2 of Exhibit Number  
19 8-Revised, Mr. Sanders, and describe what you have there.

20 A. That table at the top shows the cumulative production  
21 for each well and a total for the field, the remaining  
22 reserves, and the estimated ultimate recovery, which is  
23 simply the cumulative production plus the remaining reserves.  
24 I determined the -- I estimated the remaining reserves using  
25 decline curves, which the production graph for these curves

1 is shown in Appendix A.

2 Q. All right. Appendix A?

3 A. Is the one for 16-14.

4 Q. And Appendix C?

5 A. Appendix C is the one for 17-9.

6 Q. All right. And you also have in addition to these  
7 curves that are in the appendix, you have the tabular  
8 computations for the production for the various years that it  
9 was on production, correct?

10 A. That is correct.

11 Q. All right. Go ahead, Mr. Sanders.

12 A. Okay. From this, you can see that the total primary  
13 estimated ultimate recovery was 541,000 barrels of oil, which  
14 represents about 18.8 percent of the original oil in place.

15 Now, using a correlation equation that I have  
16 used for years, I estimated that the waterflood recovery for  
17 this reservoir should be 30 percent. And that would indicate  
18 that there was 11.2 percent of the oil remaining -- of the  
19 original oil in place remaining to be produced by a  
20 waterflood, and that would amount to about 322,000 barrels of  
21 oil, which, I think, that if this waterflood isn't done, then  
22 that that amount of oil will be considered wasted.

23 Q. Okay. Now, we have got to determine or present to  
24 this Board a equity factor for dividing up the proceeds for  
25 this additional oil under unit operations. And what are you

1 recommending to be the tract factor for these two tracts and  
2 the cutoffs for those?

3 A. The tract factor we recommend is the tract reservoir  
4 volume divided by the unit reservoir volume with a porosity  
5 cutoff of 8 percent and a water saturation cutoff of  
6 50 percent.

7 Q. That would give us a tract factor of each of the two  
8 tracts. And if you turn to Page 3 of this exhibit, at the  
9 top of that page you have computed those tract factors for  
10 tracts one and two. Tract one, flip back here just a minute,  
11 tract one and two being the two 160-acre units that currently  
12 exist in the field. So what would be the tract factor for  
13 tract one which is the South and the Quarter -- the Southeast  
14 Quarter of Section 17?

15 A. That would be 52.5 percent.

16 Q. All right. It has 2,100 acre-feet of reservoir  
17 volume in tract two?

18 A. It has 1,900 acre-feet of reservoir volume, which  
19 would be 47.5 percent.

20 Q. Okay. Now, below that you have your waterflood  
21 recovery factor correlation equation. Explain that to us,  
22 please.

23 A. This is an equation that is based on a statistical  
24 analysis of waterflood recoveries in different basins across  
25 the country. And I've used this equation extensively in my

1 career and I think it's applicable to the Haynesville  
2 Formation at West Falco.

3 Q. And this is the equation that you used to come up  
4 with your recovery factor that you expect to achieve in this  
5 waterflood operation; is that correct?

6 A. Correct.

7 Q. All right. Let's look at your Exhibit Number 9 and  
8 let's explain your plan of unit operations for this West  
9 Falco Unit, Mr. Sanders.

10 A. Essentially, what we plan to do is re-complete the  
11 16-14 Well as an injector and produce the 17-9 Well and use  
12 the 21-1 Well as a source well. And we will use the produced  
13 water from the 17-9 Well along with supplementing that water  
14 with the water from the 21-1 Well to be produced. We have  
15 estimated that we will be injecting 600 barrels of water per  
16 day with probably 300 barrels from each source.

17 Q. Okay. And so really you are going to have, as you  
18 push this water from the 16-14 to the 17-9, the 17-9 is going  
19 to continue to produce water and that water will be cycled  
20 back into the injection process and supplemented, as you have  
21 said, with the water from the saltwater disposal well coming  
22 from the Tuscaloosa Formation, I take it?

23 A. Correct.

24 Q. Okay. What about at these rates of production, have  
25 you calculated the frac gradient that would be -- that might

1 be involved here with putting these volumes away?

2 A. Yes. The frac pressure that I have estimated --  
3 bottomhole frac pressure, I have estimated to be  
4 9,483 pounds. And the surface frac pressure I have estimated  
5 to be 3,180 with the specific gravity of the fluid that we  
6 are going to be injecting of 1.12.

7 Q. Okay. And will the waterflood operation that you  
8 have proposed to the Board today exceed that frac gradient  
9 such that you would break down the formation and possibly the  
10 overlying or underlying formation?

11 A. No, it won't.

12 Q. Okay. Now, one of the statutory requirements in  
13 creating a unit is to not have the cost of unit operations  
14 exceed the revenue generated by the additional production  
15 resulting from those enhanced recovery operations. What is  
16 the situation here?

17 A. Well, I calculated the value of the estimated  
18 recovery at \$90 a barrel for oil at a net revenue interest of  
19 81.25 percent and determined that the value of that is in  
20 excess of \$21 million. And we have estimated that the unit  
21 expenses from the day of approval forward to be \$300,000,  
22 which results still in a value in excess of \$21 million.

23 MR. PEARSON: Mr. Watson, for the record, he is  
24 testifying to Exhibit 10, am I correct?

25 MR. WATSON: Yes. I'm sorry.

- 1                   MR. PEARSON: No, that is fine.
- 2                   Q.           (BY MR. WATSON:) Now, EOR, LLC has spent more than  
3                   \$300,000 in getting this field ready for unit operations, has  
4                   it not? This is what you would spend going forward from the  
5                   date the Board approves the plan of unit operation?
- 6                   A.           Correct.
- 7                   Q.           Tell them basically what you have done since EOR, LLC  
8                   acquired this field in the way of getting -- well, first of  
9                   all, why don't you tell the Board what was out there when EOR  
10                  acquired this?
- 11                  A.           Well, almost all the equipment was gone, the surface  
12                  equipment, and the tubing had been removed from the well.
- 13                  Q.           So when EOR, LLC acquired this, then what did you  
14                  have to go in and do, Mr. Sanders?
- 15                  A.           We had to install production equipment and run tubing  
16                  and packer into the well.
- 17                  Q.           And after you had done all of that, you then put the  
18                  well on production?
- 19                  A.           Yes, we did.
- 20                  Q.           And that is when you were getting in the neighborhood  
21                  of -- well, what did you get initially?
- 22                  A.           You know, the first day's production was probably  
23                  40 barrels a day, but it quickly settled in on around  
24                  17 barrels a day.
- 25                  Q.           Okay.

1 A. With 300 barrels of water.

2 Q. And what do you estimate roughly was spent at that  
3 point or has been spent from the time that this well was  
4 acquired and reworking the injection well up to this point in  
5 time?

6 A. Well, I think on just that part of it -- also, we had  
7 to essentially replace the saltwater line that went -- that  
8 runs over to the saltwater disposal well, we have probably  
9 spent somewhere near a million dollars.

10 Q. Okay. So if you add those costs, plus the costs that  
11 you would expend post unitization, you would be about a  
12 million three, that is still a long way away from what you  
13 anticipate recovering in this additional oil at \$90 a barrel  
14 after you take out the costs, correct?

15 A. That is correct.

16 Q. Let me ask you this question before we move on.  
17 Let's look back at Exhibit Number 3. I want to talk to you  
18 in terms of this Haynesville Oil Pool, and I want to talk to  
19 you in terms of your plan of unit operations injecting water  
20 in the 16-14 Well.

21 Do you have any evidence that there is more than  
22 one oil pool in this Haynesville?

23 A. No, I don't.

24 Q. If it were more than one pool, the Board didn't see  
25 fit to define it as such when it set up the field, did it?

1 A. No.

2 Q. Well, let's just assume that there are stringers or I  
3 call them lenses, if you will, like the fingers on your hand,  
4 productive in the Haynesville. If that were the case, what  
5 affect would your waterflood operation have on this  
6 Haynesville?

7 A. If there were some of those lenses like that that  
8 were isolated, it would be difficult to push oil from one  
9 well toward the other. But in general, it looks to me like  
10 the things are, for the most part, continuous and one pool.

11 Q. Now, you told me about a new device for waterfloods  
12 that you were planning on implementing here, some device that  
13 pulsed the water. Describe that to the Board, if you  
14 would, please, sir?

15 A. That is a -- there is a company named Wavefront that  
16 developed a device that is inserted in the tubing that pulses  
17 the formation as you inject the water. And they have done  
18 several field studies and it appears that this pulsing  
19 stabilizes the waterfront so that it -- the waterfront moves  
20 more evenly through the reservoir and increases the recovery.

21 Q. All right. Any idea what that device costs?

22 A. It's not a device you can purchase. You have to  
23 contract it and use it. It costs about \$7,000 a month to use  
24 it.

25 Q. So it's a tool that you rent from a service company?

1 A. Yes.

2 Q. And you intend to rent that tool here?

3 A. Yes.

4 Q. And that would increase the efficiency of the  
5 waterflood?

6 A. Correct.

7 Q. Is it your testimony as a petroleum engineer,  
8 Mr. Sanders, that without the implementation of a program  
9 such as you have presented here today, that the oil that  
10 remains in place in at least this 320 acres of the West Falco  
11 Field will remain there and be lost for the near term?

12 A. That is correct.

13 Q. It would require some other operator at some other  
14 point in time to come in and put forth a program to produce  
15 the oil?

16 A. That is correct.

17 Q. Is it also your testimony that this oil cannot be  
18 produced by primary production methods?

19 A. Yes, that is correct.

20 Q. You have tried that?

21 A. Yes, it's -- the response has not been very good.

22 Q. It hasn't been economically responsive, has it?

23 A. No, it hasn't.

24 Q. All right, sir.

25 MR. WATSON: Mr. Pearson, I am prepared to

1 proceed now with my land witness unless you want to ask  
2 questions. I'm sorry, I wasn't looking up, I didn't see  
3 you. I'm prepared to proceed with the land witness unless  
4 you would like to ask questions of the technical witness  
5 before.

6 MR. PEARSON: Let's take both witnesses first  
7 and ask the questions later.

8 MR. WATSON: All right.

9 MR. PEARSON: Mr. Watson, do you intend to  
10 submit the federal ratification or agreement?

11 MR. WATSON: Yes, sir, I'm going to do that. As  
12 soon as I qualify him, I'm going to pass that out. My next  
13 witness is Daniel Burns.

14 Mr. Burns, tell the members of the Board and  
15 staff what your position is with EOR, LLC.

16 MR. BURNS: The land manager with EOR. I do  
17 landman-type services. I also do some abstracting work with  
18 them as well for about the last four years.

19 MR. WATSON: And is this field, the West Falco  
20 Field Unit, been your responsibility?

21 MR. BURNS: It has.

22 MR. WATSON: All right. You have determined the  
23 owners and you have attempted to get the owners, royalty and  
24 overriding royalty interest owners to ratify the unit  
25 agreement?

1 MR. BURNS: That is correct.

2 MR. WATSON: Is it true that EOR LLC owns 100  
3 percent of the working interest?

4 MR. BURNS: We do.

5 MR. WATSON: And how did you acquire that  
6 interest?

7 MR. BURNS: Doing assignment from the prior  
8 owner, who also had 100 percent of the working interest.

9 MR. WATSON: All right. And when was that  
10 acquired?

11 MR. BURNS: In July.

12 MR. WATSON: In July of this year?

13 MR. BURNS: This year.

14 MR. WATSON: 2011. All right, sir. And did you  
15 have the advantage of the title work from the prior operator  
16 to determine the owners of the royalty and the overriding  
17 royalty interest owners in this proposed unit?

18 MR. BURNS: We did.

19 MR. WATSON: And have you identified all of  
20 those owners? Do you know who all those owners are?

21 MR. BURNS: We do.

22 MR. WATSON: And have you attempted to contact  
23 or contacted those royalty and overriding royalty interest  
24 owners?

25 MR. BURNS: Yes, we have.

1                   MR. WATSON: I tender him as an expert landman  
2                   for giving testimony in this hearing, Mr. Pearson.

3                   MR. PEARSON: So recognized.

4                   MR. WATSON: Now, if you will indulge me just a  
5                   minute -- here is the unit agreement, two copies. (Hands  
6                   exhibits to Board.)

7

8                                   DANIEL BURNS,

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

11

12                  (ITEM 1) DIRECT EXAMINATION BY MR. WATSON:

13                  Q.           Mr. Burns, you have heard me state to the Board that  
14                  sometime around 5 a.m. this morning you received and  
15                  forwarded to me a ratification from the BLM from Mr. Bagnall;  
16                  is that correct, his name?

17                  A.           That is correct, Bill Bagnall.

18                  Q.           Bill Bagnall. That came in this morning at 5:00.  
19                  Tell the Board about your negotiations with the BLM to get  
20                  their approval for this unit based on their ownership of  
21                  160 acres in the 320-acre unit.

22                  A.           Well, we started working with the BLM from the point  
23                  of the last agreement that we had ratified from the Board.  
24                  It has taken this amount of time to get through their  
25                  process, and up until, obviously, this morning. Last week,

1 we expected to have it in. And through their final review  
2 over the changes that we made, they agreed to do that, and he  
3 was in the office early a.m. on his vacation this morning to  
4 have that verified and approved.

5 Q. Let me talk just a minute about that. When you say  
6 "ratified by the Board," I want to clear the record up. We  
7 filed a unit agreement initially, an unsigned unit agreement  
8 with the Board, and there were some concerns with that  
9 because we had drafted that unit agreement exactly like the  
10 Hickory Branch Unit Agreement that had been approved about  
11 ten years prior to; is that correct?

12 A. That is correct.

13 Q. That also involved federal lands and so we felt like  
14 that was a good pattern to follow. As it turned out, this  
15 Board that has the prerogative of making its own decisions,  
16 not necessarily following precedent, advised us that unit  
17 form being ten years old was not acceptable; is that correct?

18 A. That is correct.

19 Q. So we set about then to modify the unit agreement  
20 form. And the unit operating agreement, we will talk about  
21 in a minute, it's a very simple, one-page document. But we  
22 attempted to work with the BLM to try to get their approval,  
23 because without their approval, there would be no unit,  
24 correct?

25 A. That is correct. They have half of it.

1 Q. They have half of it. So we modified a unit  
2 agreement and filed it, and I'm going to, with Mr. Pearson's  
3 indulgence, I am going to point out the provisions in this  
4 unit agreement that we tried to modify to make what we would  
5 call here a standard unit agreement, Mr. Pearson. It's  
6 normally approved by this Board without the involvement of  
7 the federal government. I tried to make that compatible for  
8 a presentation to this Board.

9 And in the very first page in the Article 1.1,  
10 we reference the fact that enabling act and regulations are  
11 constituted by Title 9-17-80, et seq, and also by the  
12 Minerals Leasing Act of 1920. But in the same paragraph, the  
13 last sentence in that paragraph, recognizing the federal  
14 ownership says that anything inconsistent with the terms of  
15 the laws of Alabama would not survive this agreement, that is  
16 the intent, that the laws of Alabama are superior.

17 In addition, if you would look at page -- and  
18 you do this, too, Mr. Burns, while I am going through this.  
19 Article 18 and on Page 18, there is a new provision that is  
20 in all state unit agreements now required by this Board and  
21 that is -- a working interest owner cannot just automatically  
22 terminate a unit, we have to have notice of hearing and  
23 approval by this Board. So in Article 18.2, it addresses a  
24 termination by the Board and the AO. And the AO is defined  
25 as the authorized officer of the BLM. And in this provision,

1 Article 18.2, we say that to terminate this unit is subject  
2 to the approval of the AO and the Oil and Gas Board.

3 Now, should this unit become uneconomic and you  
4 decided as unit operator to terminate the unit, you will  
5 first ask the AO for that permission to terminate it, based  
6 on the technical or the economic justifications, would you  
7 not, Mr. Burns?

8 A. That is correct, before we come to the Board.

9 Q. And then we would file a petition with the Board  
10 asking the Board to approve the termination, the AO could not  
11 terminate the unit on its own, could it?

12 A. That is correct.

13 Q. Not intended to do that. It's a preamble or  
14 prerequisite to this Board.

15 And then in Article 18.4, we would file a  
16 certificate of termination after the Board approved it with  
17 the Board with the county in which the land is situated and a  
18 copy to the AO.

19 MR. WATSON: So, Mr. Pearson, I think that  
20 subject to a fine reading, which I think I have done in this  
21 agreement, unless you have found something else, that is  
22 basically the adaptation of this unit agreement to the  
23 federal ownership.

24 Q. Now, having said that, Mr. Burns, you know who all  
25 the owners are, and we have a lot of overriding and royalty

1 owners, but as of this morning, what number do you have of  
2 those royalty owners and overriding royalty interest owners  
3 who have approved this unit agreement?

4 A. We have 70 and a half percent.

5 Q. 70.25?

6 A. I'm sorry.

7 Q. 70.25 of those royalty and overriding interest  
8 owners, and I'm just going to flip through those that I have  
9 handed up. That is a Janie Jeffers.

10 A. That is right.

11 Q. BLM?

12 MR. PEARSON: Mr. Watson, hold on just a second.  
13 I wanted to ask a question, if I could.

14 MR. WATSON: Sure.

15 MR. PEARSON: Mr. Watson, before we move off the  
16 unit agreement, there was a prefiled draft of the unit  
17 agreement which appears to look different. It had an  
18 article or a paragraph number three concerning expansion of  
19 the unit area. And if we look at Page 14 of the one that  
20 you have submitted, it has enlargement of the unit area?

21 MR. WATSON: Yes, sir.

22 MR. PEARSON: The one that was prefiled had a  
23 language in it which appeared to have been inserted, that  
24 enlargement required approval by the AO. And in two or  
25 three places, what I am looking at in what you've just filed

1 on Page 14 in Article 12.1, it does not appear to have that  
2 language.

3 MR. WATSON: That is correct.

4 MR. PEARSON: So that part has been changed?

5 MR. WATSON: That is correct.

6 MR. PEARSON: Thank you.

7 MR. WATSON: Yes, sir. You can trash the  
8 prefiled. I should have pointed that out. Thank you for  
9 doing that. That was one of your objections, as I  
10 understood it. And working with this BLM guy, we have done  
11 what we had to do to get him to ratify this as it is  
12 presently drafted the way you have it.

13 MR. PEARSON: Thank you.

14 Q. (BY MR. WATSON:) And I think I was thumbing through  
15 the folks who have signed up. Jeffers has signed. The BLM  
16 has signed. Robert Worrell has signed?

17 A. That is correct, Jr.

18 Q. Jr. A Gary Billingsley has signed?

19 A. Correct.

20 Q. And his wife, Patricia Billingsley, has signed?

21 A. That is correct.

22 Q. And those folks constitute the 70.25 percent of the  
23 royalty and the overriding royalty interest owners, correct?

24 A. That is correct.

25 Q. Now, as a practical matter, would having received the

1 BLM ratification this morning at 5 a.m. or thereabouts --  
2 tell the Board about your contact with all the other royalty  
3 and overriding primary overriding royalty interest owners in  
4 this unit. You made contact with them by letter?

5 A. By letter. Some that are listed in person. When we  
6 filed to give them notice of the hearing, we also after that,  
7 once we had this document ready for their signature, had a  
8 mail-out with the ratification agreement, and it's the same  
9 statement explaining what the process was. And at this  
10 point, we have had the response that we have had back as of  
11 yet.

12 With the BLM coming in so late and it being such  
13 a large part of the unit, we didn't really know which way it  
14 was going to go up until this point. Post BLM now being  
15 ratified, we will be in direct contact with the rest of the  
16 remaining percentage.

17 Q. Because it's in your best interest to have these  
18 folks sign the ratification now that we have the majority or  
19 the large owner in, so that those parties, rather than being  
20 force unitized, will be party signatories to the unit  
21 agreement; is that correct?

22 A. That is our wish, correct.

23 Q. And a lot of these folks live out on the ground close  
24 to the West Falco Field?

25 A. They do. A lot of them have no phone, no other

1 communication other than in that local area. So it's going  
2 to take us getting out into the field now to do a lot of  
3 legwork.

4 Q. Okay. But number one, they have received notice of  
5 the hearing from me in the Affidavit of Notice; number two,  
6 you have sent them by mail, all of the royalty and working  
7 interest owners, a ratification form and a letter of  
8 explanation that this unit we are trying to put together  
9 would hopefully result in the production of oil?

10 A. Yes, sir.

11 Q. And none of those folks are getting a check today,  
12 are they?

13 A. No, sir.

14 Q. Have you had anyone in the field or anyone that you  
15 know -- has anyone listed on here advised you that they are  
16 not in favor of this unit agreement?

17 A. Quite the opposite. They are all very much in favor  
18 of getting production restored.

19 Q. Okay, sir. And with the 70.25 percent of the royalty  
20 and overriding royalty interest owners, now that we have  
21 ratified, we have a group, I'll call it, of the Billingsley  
22 children and related family members. There is a letter  
23 attached to this ratification informing you that some of  
24 these owners are simply put on there for distribution  
25 purposes, they don't have ownership; is that your

1 understanding?

2 A. That is correct. Gary and Patricia Billingsley  
3 actually have the ownership in title and the other names are  
4 merely there for distribution purposes.

5 Q. In other words, they want you to make distribution of  
6 their ownership to these children and near relatives of  
7 theirs?

8 A. That is correct.

9 Q. That is something that you could voluntarily do, but  
10 you don't have a legal obligation to do, do you?

11 A. That is correct.

12 Q. And I have stated, I think already, that when you  
13 acquired this property, you acquired 100 percent of the  
14 working interest from the prior working interest owner, so  
15 that you do, in fact, have 100 percent of the ownership and  
16 control?

17 A. That is correct.

18 Q. And can you state as Mr. Sanders has stated that EOR,  
19 LLC is prepared to move forward with implementing a enhanced  
20 recovery program, if this Board approves it?

21 A. That is correct.

22 Q. Who is EOR, LLC?

23 A. It's an acronym for what is -- it's commonly used for  
24 enhanced oil recovery. We are just using it as a title.  
25 It's kind of our niche in the marketplace.

1 Q. All right. Who owns the interest in the LLC?

2 A. M. C. Davis is our managing member.

3 Q. All right. Mr. Davis, as I appreciate it, is a --

4 what does Mr. Davis do for a living?

5 A. He tries to make money to afford his conservation

6 efforts, as a simple statement. We do oil and gas business.

7 Obviously, we are in the land and timber business, but he's a

8 big conservationist.

9 Q. By "big conservationist," do you mean he owns a lot

10 of land that he has in a conservation easement?

11 A. He has 52,000 acres in an area that is largely

12 developed in Florida that he has in perpetual conservation.

13 Q. Let me ask you, Mr. Burns, and then you, Mr. Sanders:

14 Both of you recognize that without some implementation of a

15 enhanced recovery program, this field is dead, right?

16 A. (BY MR. BURNS:) That is correct.

17 A. (BY MR. SANDERS:) That is correct.

18 Q. And we have stated time and again, maybe multiple

19 times here that you are prepared to move forward, and I think

20 I said that if the Board approves this, you would be moving

21 forward expeditiously. Put some substance to that statement.

22 That is me talking. What are your plans if the Board

23 approves this unit today?

24 A. (BY MR. SANDERS:) Once we start working on the

25 ground, it will probably take us three weeks or so to get

1 equipment installed and start our flood.

2 Q. Okay.

3 MR. WATSON: Mr. Pearson, I would ask that you  
4 receive into the record of this hearing Exhibits 1 through  
5 10 to the testimony of Mr. Sanders.

6 (Whereupon, (Item 1) Exhibits 1-10 to the  
7 testimony of Mr. Sanders was offered into  
8 evidence.)

9 MR. PEARSON: Admitted.  
10 (Whereupon, (Item 1) Exhibits 1-10 to the  
11 testimony of Mr. Sanders was received into  
12 evidence.)

13 MR. WATSON: And also receive into the record of  
14 this hearing --

15 (Brief interruption.)

16 (Brief pause.)

17 MR. WATSON: And I would ask also that you  
18 receive into the record of the hearing, I have had Mr. Burns  
19 sign a front page of the ratifications, both working and  
20 royalty interest, and ask that you receive those into the  
21 record today along with the unit agreement as revised.

22 (Whereupon, (Item 1) ratifications, both  
23 working and royalty interest were offered  
24 into evidence.)

25 MR. PEARSON: While we are on that, for

1 housekeeping purposes, your last numbered exhibit was  
2 Exhibit 10?

3 MR. WATSON: Yes.

4 MR. PEARSON: Let's refer to the unit agreement  
5 as Exhibit 11.

6 MR. WATSON: Yes, sir.

7 MR. PEARSON: And the ratifications by the  
8 royalty and overriding royalty owners will be Exhibit 12,  
9 and ratification by the working interest owners will be  
10 Exhibit 13. Is that acceptable?

11 MR. WATSON: Yes. Thank you.

12 MR. PEARSON: All right. Then those will be --  
13 you have signed versions of those?

14 MR. WATSON: Yes.

15 MR. PEARSON: Those are admitted.

16 (Whereupon, (Item 1) unit agreement;  
17 ratifications, both working interest owners  
18 and royalty and overriding royalty interest;  
19 as Exhibits 11, 12 and 13 were received into  
20 evidence.)

21 MR. PEARSON: I would also point out that there  
22 has been testimony about Appendices A, B and C.

23 MR. WATSON: Yes.

24 MR. PEARSON: They are actually identified as  
25 Exhibits A, B and C to Mr. Sanders, those are also admitted

1           into evidence at this time.

2                   (Whereupon, (Item 1) Exhibits A, B and C to  
3                   the testimony of Mr. Sanders was received  
4                   into evidence.)

5                   MR. WATSON: Thank you. Thank you for that  
6                   clarification. I think I have asked my witnesses about  
7                   protection of correlative rights and the avoidance of waste.

8           Q.       (BY MR. WATSON:) But I'll ask both of you: Being  
9           familiar with waste as defined by the oil and gas laws of  
10          Alabama, would the granting of this unit and the  
11          implementation of the program you have defined prevent waste,  
12          as that termed is defined, Mr. Sanders?

13          A.       (BY MR. SANDERS:) Yes.

14          Q.       Mr. Burns?

15          A.       (BY MR. BURNS:) Yes.

16          Q.       And would it also protect the correlative rights of  
17          the owners in this proposed West Falco Oil Unit?

18          A.       (BY MR. SANDERS:) Yes.

19          A.       (BY MR. BURNS:) Yes, it would.

20                   MR. WATSON: All right. I tender these  
21                   witnesses.

22                   MR. PEARSON: We are going to take a brief  
23                   recess to discuss questions the staff may have. I wanted to  
24                   ask a couple of questions first before the break.

25                   Mr. Burns, as to Exhibits 12 and 13, which are

1 the ratification documents, the ratifications that are  
2 actually a part of those exhibits, are they ratifications of  
3 the unit agreement, which is Exhibit 11?

4 MR. BURNS: Yes, they are.

5 MR. PEARSON: And are the percentages shown, for  
6 example, on Exhibit 12, you show a percentage ratification  
7 of 70.25 percent, is that of the royalty interest and  
8 overriding royalty interest?

9 MR. BURNS: That is correct.

10 MR. PEARSON: And, Mr. Watson, how was that  
11 number calculated, based on the tract allocation formula for  
12 the unit requested?

13 MR. WATSON: Yes, sir.

14 MR. PEARSON: And with respect to Exhibit 13, am  
15 I correct that I guess EOR is the 100 percent working  
16 interest owner in this unit?

17 MR. BURNS: That is correct, sir.

18 MR. PEARSON: Okay. Mr. Watson, in Exhibit 11,  
19 other than -- I'm going to go back through this real quick.  
20 If you could look at the bottom of Page 1, top of Page 2.  
21 You pointed that out as to involvement with the federal  
22 regulations that are in play here, the Mineral Leasing Act?

23 MR. WATSON: Yes, sir.

24 MR. PEARSON: And then I believe you also  
25 mentioned Page 18?

1 MR. WATSON: Yes, sir.

2 MR. PEARSON: The determination that ordinarily  
3 has to be done now also requires input and approval by the  
4 AO?

5 MR. WATSON: Yes, sir.

6 MR. PEARSON: Is there anywhere else in this  
7 document that you know of that requires approval of the AO?

8 MR. WATSON: No, sir.

9 MR. PEARSON: Okay. Thank you. We are going to  
10 take a brief recess, probably about ten minutes, and then we  
11 will come back at that point.

12 MR. WATSON: Thank you.

13 (Short break taken.)

14 MR. PEARSON: Let the record reflect that the  
15 State Oil and Gas Board is back in session.

16 Mr. Rogers, you had a question on notice?

17 MR. ROGERS: Yes, sir. To the land men, the  
18 rules require that if the proposed unit area is less than  
19 the field, that you notify all the owners outside the unit  
20 area, but within the field. Have you complied with that  
21 regulation?

22 MR. BURNS: Yes, sir, we did.

23 MR. ROGERS: The other question I had I was  
24 unsure about. You have all these Billingsleys named, that  
25 they are named, they have a stated interest. I assume that

1           your Exhibit E to the unit agreement is correct and the  
2           parties that have an interest; is that right?

3                     MR. BURNS: That is correct.

4                     MR. ROGERS: So the ones that you said were due  
5           distribution but had no interest, where is that addressed?  
6           I was confused by that. All these parties listed have the  
7           interest that you state?

8                     MR. WATSON: Yes.

9                     MR. BURNS: That is correct.

10                    MR. WATSON: There is a letter attached to the  
11           back of the unit ratifications that I handed up with the  
12           Billingsleys stating that, Mr. Rogers.

13                    MR. ROGERS: But they are outside this list,  
14           those are other parties that are going to get some  
15           information about this, they have no interest?

16                    MR. WATSON: That is right. They are children,  
17           distribution.

18                    MR. ROGERS: It's really just a courtesy?

19                    MR. WATSON: That is correct.

20                    MR. BURNS: That is correct.

21                    MR. ROGERS: Thank you.

22                    MR. PEARSON: Dr. Tew and the staff, any  
23           questions?

24                    DR. TEW: Yes, sir, Mr. McQuillan has some  
25           questions.

1                   MR. MCQUILLAN: Mr. Sanders, in Exhibit 3, if  
2 you will turn to that, please. You show that the top of the  
3 unitized interval which you had testified was also the top  
4 of the pool, according to the Special Field Rules?

5                   MR. SANDERS: Correct.

6                   MR. MCQUILLAN: Which was previously testified  
7 by other expert witnesses. Is there a 13,010 feet measured  
8 depth in the log? Now, according to my calculation in  
9 previous exhibits, that would put that at a subsea of minus  
10 12,775 feet. On your Exhibit 5, you are showing a top of  
11 the Haynesville Oil Pool in this well at a minus  
12 12,758 feet.

13                  MR. SANDERS: Yes.

14                  MR. MCQUILLAN: Is it your testimony then that  
15 the top of that interval is higher than has been previously  
16 testified?

17                  MR. SANDERS: Yes, that is my interpretation.  
18 And the way I came to that, when I do this type of work, you  
19 can either correlate these logs from top to bottom or from  
20 bottom to top. Well, I do both. And it turns out in this  
21 case, that it works better to correlate from bottom to top.  
22 And when I did that, it looked like to me that the top sand  
23 in the 16-14 Well was a shale interval in the 17-9 Well. In  
24 other words, I am saying that sand shaled out and that the  
25 top of the formation is shale.

1                   Now, you know, that is my interpretation and,  
2                   you know, it differs from, you know, what is on Exhibit 3,  
3                   but I think that it's kind of an academic technical type of  
4                   difference.

5                   MR. MCQUILLAN: Is it your intention to inject  
6                   and continue to produce these wells with the existing perfs?

7                   MR. SANDERS: Yes.

8                   MR. MCQUILLAN: You don't intend to squeeze any  
9                   perfs off?

10                  MR. SANDERS: No.

11                  MR. MCQUILLAN: Did you happen to like map the  
12                  top of the perfs? What I am getting at is: Even though the  
13                  Paramount-Federal 16-14 #1 Well appears higher in all other  
14                  aspects, including on your cross-section, you believe that  
15                  those sands in that that you intend to produce are lower?

16                  MR. SANDERS: Well, I think they are very close  
17                  on structure if that top sand in the 16-14 Well is not  
18                  represented in the 17-9 Well. Really, if you start at the  
19                  bottom again and work up, you will find that these zones  
20                  have very similar structural positions. And I felt like  
21                  since they were that close, that I would rather use the more  
22                  prolific 17-9 as the producer and the 16-14 as an injector.

23                  MR. MCQUILLAN: One other question I have is:  
24                  If I remember your testimony, is that the 17-9 Well is  
25                  currently producing?

1 MR. SANDERS: Yes, it is.

2 MR. MCQUILLAN: Even though the exhibits, the  
3 appendix here to exhibits show that last production was in  
4 August of 2009, is this just not up-to-date?

5 MR. SANDERS: Correct.

6 MR. MCQUILLAN: Okay. Thank you.

7 MR. PEARSON: Mr. Watson, unless you have an  
8 objection, I'm going to incorporate in this record the prior  
9 evidence, testimony and exhibits with regard to this field  
10 when it was created and when it was enlarged.

11 MR. WATSON: No objection.

12 MR. PEARSON: So done.

13 (Whereupon, prior evidence, testimony and  
14 exhibits with regard to this field when it was created and  
15 when it was enlarged are incorporated into the record.)

16 MR. PEARSON: I have a question, Mr. Watson, of  
17 Mr. Sanders. With respect to an e-mail that was forwarded  
18 to the Oil and Gas Board by Mr. Watson, this is -- I believe  
19 it was forwarded October 11th, 2011, Mr. Watson, it appears  
20 to be a forward of an e-mail from Mr. Sanders to you. Are  
21 you familiar with the e-mail I am talking about?

22 MR. WATSON: Not right off the top of my head.

23 MR. PEARSON: Let me show you this and ask you  
24 to show it to Mr. Sanders, please.

25 MR. WATSON: (Reviewing document.) Okay.

1                   MR. PEARSON: Mr. Sanders, I'm going to ask you  
2 to take just a second and review it to refresh yourself.

3                   MR. SANDERS: (Reviewing document.) Okay.

4                   MR. PEARSON: While you have got it in front of  
5 you, from more of a layman's perspective, but also somewhat  
6 from a technical perspective on the part of the staff, your  
7 e-mail appeared to suggest that the Paramount-Federal 16-14  
8 Well was looking at intervals or formations that were not in  
9 communication with the Paramount-Jeffers 17-9 Well. Could  
10 you comment on what you meant by your e-mail, please?

11                  MR. SANDERS: Okay. And I have to admit, I had  
12 just scanned this. I was working on a well, so I was trying  
13 to give him an answer in a timely fashion. And what I was  
14 really talking about in this e-mail was what I said to him  
15 earlier about the -- there is one sand in the top portion of  
16 the 16-14 Well that I interpret as having shaled out before  
17 it gets over to the 17-9 Well.

18                  MR. PEARSON: But I would be correct from  
19 listening to your testimony here today and your response to  
20 the staff's questions, that it is your testimony that the  
21 Paramount-Federal 16-14 Well is in communication with the  
22 Paramount-Jeffers 17-9 Well; am I correct?

23                  MR. SANDERS: That is correct. That is correct.

24                  MR. PEARSON: Thank you. Unless you have an  
25 objection, Mr. Watson, we are going to incorporate this

1 e-mail into the record.

2 MR. WATSON: No objection.

3 (Whereupon, the e-mail by Mr. Sanders to Mr.  
4 Watson was incorporated into the record.)

5 MR. PEARSON: Thank you for that clarification.  
6 Any further questions of the staff?

7 MR. ROGERS: I have one question. I see this  
8 letter here about this distribution issue, and it says I  
9 have attached -- this is from Gary Billingsley to Daniel  
10 Burns -- I have attached a list of each of the names listed.  
11 At least the one Ms. Connell had, doesn't have an attachment  
12 to it.

13 MR. WATSON: It's the same names that are on the  
14 unit agreement.

15 MR. ROGERS: So just assume there is no  
16 attachment?

17 MR. WATSON: No, sir, there is no attachment to  
18 that. That is what we got and that is what I am handing you  
19 up. But it's the names of all those Billingsley children  
20 and relatives that is on the unit agreement that you have a  
21 copy of, no other parties.

22 MR. PEARSON: Any further questions by the  
23 staff?

24 (No response.)

25 MR. PEARSON: Mr. Watson, anything further?

1 MR. WATSON: That is all I have.

2 MR. PEARSON: Do I hear a motion?

3 MR. LAWLEY: I make a motion to approve the  
4 request.

5 MR. PEARSON: Motion to grant the petition. Any  
6 discussion?

7 (No response.)

8 MR. PEARSON: Hearing none, all in favor say  
9 "aye."

10 MR. LAWLEY: Aye.

11 MR. PEARSON: Ayes have it. The petition is  
12 granted.

13 MR. WATSON: Thank you very much.

14 MR. ROGERS: That is all that is on the docket  
15 for today.

16 MR. PEARSON: The State Oil and Gas Board is now  
17 adjourned.

18

19

END OF PROCEEDINGS

20

21

(The hearing was adjourned at 11:45 a.m.)

22

23

24

25

## C E R T I F I C A T E

1  
2  
3 STATE OF ALABAMA)

4 JEFFERSON COUNTY)

5  
6 I hereby certify that the above and foregoing  
7 proceedings were taken down by me in stenotype, and the  
8 questions and answers thereto were reduced to typewriting  
9 under my supervision, and that the foregoing represents a  
10 true and correct transcript of the proceedings given by  
11 said witness upon said hearing.

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

15  
16  
17  
18  
19  
20 /s/ Teresa Turquitt Davis

21 TERESA TURQUITT DAVIS, CCR, RPR

22 CCR #162, Expires 09/30/12

23 Commissioner for the

24 State of Alabama at Large

25 My Commission Expires: 12/03/12