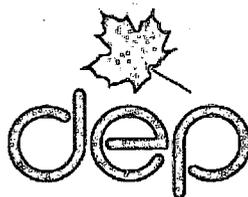


CHESAPEAKE APPALACHIA, LLC 171-28



west virginia department of environmental protection

Oil and Gas Conservation Commission
601 57th Street, Charleston, WV 25304

Joe Manchin III, Governor
Stephanie R. Timmermeyer, Cabinet Secretary
www.wvdep.org

**BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA**

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE)
APPALACHIA, L. L. C. FOR AN ORDER FROM THE)
COMMISSION POOLING TRACTS AND INTERESTS OF)
OIL AND GAS OWNERS IN THE ABSENCE OF A VOLUNTARY)
AGREEMENT FOR THE DEVELOPMENT AND OPERATION)
OF UNIT BLOCK 108 IN THE TUSCARORA SANDSTONE)
POOL OF THE INDIAN CREEK FIELD, MALDEN DISTRICT,)
KANAWHA COUNTY, WEST VIRGINIA, PURSUANT)
TO WEST VIRGINIA CODE 22C-9-7(b), AS AMENDED, AND)
FOR AN ORDER GRANTING A WELL LOCATION SPACING)
EXCEPTION TO THE MINIMUM DISTANCE REQUIREMENTS)
APPLICABLE TO THE INDIAN CREEK FIELD, PURSUANT TO)
WEST VIRGINIA CODE 22C-9-7(a)(6), AS AMENDED.)

DOCKET NO. 171

CAUSE NO. 28

ORDER NO. 1

REPORT OF THE COMMISSION

This cause came before the Commission on August 16, 2006, at 10:00 a.m., at the Office of the Department of Environmental Protection, 601 – 57th Street, Charleston, West Virginia, after giving notice of hearing as required by law, on the Application of Chesapeake Appalachia, L. L. C. ("Applicant") for an order from the Commission pooling unleased tracts and interests of operators in the absence of a voluntary agreement for the development and operation of Unit Block 108 in the Tuscarora Sandstone Pool of the Indian Creek Field, Malden District, Kanawha County, West Virginia.

FINDINGS OF FACT

1. The application was submitted under the provisions of §22C-9-7(b) of the Code of West Virginia, as amended, and §22C-9-7(a)(6), as amended, and the applicable rules of Practice and Procedure of this Commission.

2. An Order establishing Special Field Rules was issued by the Commission on August 29, 1979, for the Tuscarora Sandstone Pool of the Indian Creek Field, Malden and Elk Districts, Kanawha County, West Virginia

3. From the evidence and testimony introduced in the hearing, it appears and the Commission hereby finds:

(a) Applicant has obtained Lease Agreements with voluntary pooling provisions representing approximately 90% of the oil and gas interests in Unit Block 108.

(b) Applicant has made reasonable efforts to obtain leases or lease modifications (to add pooling rights) from the remaining oil and gas interest owners in Unit Block 108, but has been unable to do so.

Promoting a healthy environment.

- (c) The interests of all unleased owners of oil and gas interests or leased owners with no pooling provisions are shown in Exhibit A to this Order.
- (d) Applicant proposes to act as operator for the development of Unit Block 108 and is unaware of any other interested person who proposed to act as operator.
- (e) No other operator or royalty owner made an appearance at the hearing.
- (f) Applicant estimates the dry hole and completion costs for the proposed well in Unit Block 108 (Well No. 824215) is \$638,044 and \$419,360, respectively.
- (g) The proposed location of the well in Block 108 does not comply with the 1,500 feet from the unit boundary spacing requirement of the August 29, 1979 Order due to surface conditions which add burden or hazard to the drilling of the well.
- (h) Pursuant to §22C-9-7(a)(6) of the Code of West Virginia, as amended, a spacing exception is required to obtain a suitable and safe drilling location for the well in Block 108.
 - (i) In the absence of the pooling order and designation of Applicant as operator, the oil and gas within the Tuscarora Formation underlying tracts within drilling Unit Block 108 may not be produced and developed.

CONCLUSION OF LAW

1. Due notice of the time, place and purpose of the hearing has been given as required by law.
2. Pursuant to West Virginia Code §22C-9-7, as amended, the Commission has jurisdiction over the subject matter embraced in said notice, and the persons interested therein, and jurisdiction to promulgate the hereinafter-prescribed Order.
3. That Applicant is an operator within the meaning of West Virginia Code §22C-9-2(a)(4), and as such has standing to make the application, which is the subject of this hearing.
4. That the granting of this application will prevent waste of oil and gas resources and will protect the correlative rights of all persons having an interest in oil and gas underlying Unit Block 108.

ORDER

It is hereby ORDERED that the unleased interests in the Tuscarora Sandstone, Indian Creek Field, Malden District, Kanawha County, West Virginia, underlying Unit Block 108 of said field be pooled under the following terms and conditions:

1. Applicant, Chesapeake Appalachia, L. L. C. is designated Operator of Unit Block 108 and is authorized to drill a well on said block, subject to securing an appropriate Drilling Permit from the Division of Oil and Gas.
2. All persons on Exhibit A are deemed to be an operator as defined in West Virginia Code §22C-9-2(a)(4) as to any unleased interest and may elect to participate in the development of Unit Block 108 as authorized by law, by submitting in writing to Applicant and the Commissioner their election to participate within ten (10) days from the date of this Order. Such election shall obligate said persons to pay their share, calculated on the net oil and gas acreage in the unit, of all reasonable costs and expenses of drilling, completing, equipping, operating and plugging the well, including reasonable charges of the Applicant for supervision of the operation of the well. Any operator not wishing to participate in the risk and cost of drilling may elect to:
 - (a) Surrender his interest to the designated operator, Chesapeake Appalachia, L. L. C., on a reasonable basis and for a reasonable consideration by notifying Applicant and the Commissioner, in writing, within ten (10) days of the date of this Order, of

his election to surrender. If an electing owner and the designated operator cannot reach such an agreement as to the basis and consideration for such surrender, the Commissioner will, upon written application, conduct further hearings herein to determine the same.

- (b) Participate on a carried basis, as described in West Virginia Code §22C-9-7(b)(5)(B), by notifying the Applicant and the Commissioner, in writing, within ten (10) days of his election to participate on a carried basis.
- (c) Any operator who fails to notify the Applicant and the Commissioner of his election under Sections (a) and (b) of Paragraph 2 above, as required, shall, pursuant to the Commission's authority to prevent waste and protect correlative rights, be deemed to have elected to participate on a carried basis as set forth in option (b) above.

3. Persons identified in Exhibit A are royalty owners joined in Unit Block 108 pursuant to this Order and are entitled to their proportionate share of royalty in accordance with the terms of their respective leases or, as defined in §22C-9-2(a)(5) of the West Virginia Code, are unleased royalty owners and are entitled to their proportionate share of one-eighth (1/8) royalty of production as Ordered in the amendment to Order No. 1 dated August 29, 1979.

4. All royalties hereunder shall be paid on the basis of the proportion that their net oil and gas acreage within the unit bears to the total acreage within the unit.

5. This Order shall not operate to prevent unleased owners of interests in oil and gas within Unit Block 108 from hereafter leasing or otherwise assigning or conveying said interest to Applicant.

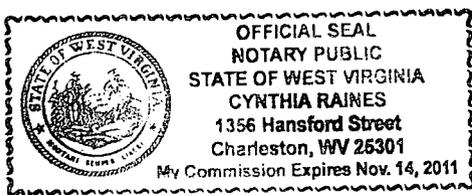
6. Applicant will submit to the Commission a final accounting showing the actual drilling and completion costs for Well No. 824215 within 30 days after all such costs have been received and determined by Applicant.

It is further ORDERED that Applicant is granted an exception to the spacing requirements of the August 29, 1979 Order and is allowed to locate Well No. 824215 as shown on the well location plat included with the Drilling Permit Application submitted by Applicant for Well No. 824215.

The Commission further incorporates the Report of the Commission and the Findings of Fact and the Conclusion of Law as a part of this Order.

Entered this 11th day of September, 2006, at Charleston, West Virginia.

IN THE NAME OF THE STATE OF WEST VIRGINIA:



OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

By: Barry K. Lay
Barry K. Lay, Commissioner

State of West Virginia

County of Kanawha

I, Cynthia Raines a Notary Public for the State of West Virginia, do hereby certify that Barry K. Lay signed and acknowledged before this 11th day of September, 2006. My Commission expires 11-14-2011.

TRACT 2 – 61.37 UNIT ACRES

NAME	INTEREST IN TRACT 2	UNLEASED UNIT ACREAGE	INTEREST IN UNIT
Unknown Heirs of Thomas H. Paul (address unknown)	92/200	28.23	4.41096%
Unknown Heirs of G. A. Bealor (address unknown)	12/200	3.68	.57503%
Unknown Heirs of Florence Bealor (address unknown)	31.34/200	9.62	1.50312%
Unknown Heirs of Quilla Bealor (address unknown)	31.33/200	9.62	1.50312%
Unknown Heirs of Helen Bealor (address unknown)	31.33/200	9.62	1.50312%
Unknown Heirs of Ellen Marie Paul Shipman (address unknown)	.33/200	.10	.01562%
Ruth Ann Paul Young (address unknown)	.33/200	.10	.01562%
Margaret M. Paul Crowl (address unknown)	.33/200	.10	.01562%
Walter R. Paul (address unknown)	.33/200	.10	.01562%
Thomas E. Paul (address unknown)	.34/200	.10	.01562%
Barbara J. Paul (address unknown)	.34/200	.10	.01562%
TOTAL	200/200	61.37	9.58907%

TRACT 3 – 33.66 UNIT ACRES

NAME	INTEREST IN TRACT 3	UNIT ACREAGE LEASED WITHOUT UNITIZATION/MODIFICATION AGREEMENT	INTEREST IN UNIT
Victor V. Stover (address unknown)	5/896=30/5376	.18783	.02934%
Dawn Kimberly Burris (address unknown)	5/1792=15/5376	.09391	.01467%
John W. Layton (address unknown)	1/672=8/5376	.05009	.00783%
Larae Casner (address unknown)	1/672=8/5376	.05009	.00783%
Nina Jean Harges (address unknown)	1/672=8/5376	.05009	.00783%
Unknown Heirs of Ernest M. Layton, Jr. and/or Loretta Layton (address unknown)	5/384=70/5376	.43828	.06848%
TOTAL	139/5376	.87029	.13598%

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BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

DOCKET NO. 171

CAUSE NO. 28

ORIGINAL

IN THE MATTER OF THE REQUEST BY CHESAPEAKE
APPALACHIA, LLC, FOR AN EXCEPTION TO THE
REQUIREMENT OF CAUSE 28, ORDER 1; AND AN
ORDER FROM THE COMMISSION POOLING TRACTS
AND INTERESTS OF OIL AND GAS OWNERS FOR THE
DEVELOPMENT AND OPERATION OF UNIT BLOCK #108
IN THE TUSCARORA SANDSTONE POOL OF THE INDIAN
CREEK FIELD, MALDEN DISTRICT, KANAWHA COUNTY,
WEST VIRGINIA

On the 16th day of August, 2006, beginning at
10:15 a.m., at the offices of the West Virginia
Department of Environmental Protection, 601 57th
Street, SE, Charleston, Kanawha County, West
Virginia, before James D. Nielsen, Court Reporter
and a Notary Public in and for the State of West
Virginia, a hearing was taken in the above-named
action pursuant to notice of the West Virginia
Department of Environmental Protection, Oil and
Gas Conservation Commission.

ACCURATE REPORTING SERVICE, INC.
526 SEVENTH STREET
HUNTINGTON, WEST VIRGINIA 25701

(304) 345-9891 * (304) 522-9637 * (606) 329-2154

1 APPEARANCES:

2 On Behalf of the West Virginia Department of
3 Environmental Protection, Oil and Gas
4 Conservation Commission:

5 Barry K. Lay: Commissioner

6 James Martin

7 Brett Loflin

8 Bob Radabugh

9 Tony Gum

10 On behalf of Chesapeake Appalachia, LLC:

11 ANTHONY A. WILHOIT, ESQ.
12 Wilhoit & Kaiser
13 300 Capitol Street
14 Suite 1121
15 P.O. Box 1389
16 Charleston, West Virginia 25325
17 (304) 346-5291

18 ALSO PRESENT:

19 Keith Moffatt

20 Rob Schindler

21 Bob Paolini

22 Jeffrey Cable

23

24

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PROCEEDING

1
2 MR. LAY: Before the Oil and Gas
3 Conservation Commission of the State of West
4 Virginia, in the matter of the request by
5 Chesapeake Appalachia, LLC, for an exception to
6 the requirements of Cause 28, Order 1, and an
7 order from the Commission Pooling Tracts and
8 Interests of oil and gas owners for the
9 development of the operation of Unit Block
10 No. 108 in the Tuscarora Sandstone Pool of the
11 Indian Creek Field, Malden District, Kanawha
12 County, West Virginia, this is Docket No. 171,
13 Cause No. 28.

14 Let the record show that present are
15 members of the Commission, James Martin, Bob
16 Radabugh, Tony Gum and Barry Lay, and Brett
17 Loflin from staff.

18 (Exhibits 1-4 marked for identification.)

19 I would like to place on the record at this
20 time as Exhibit 1 of the Commission, the Notice
21 of Hearing along with the certified return
22 receipt. Exhibit 2, is a confirmation of the
23 Online Open State Government Act notice of this
24 hearing filed with the department.

1 Exhibit 3 is a copy of the legal
2 advertisement for the hearing. And Exhibit 4, a
3 copy of the request, dated July 18th, 2006, from
4 Anthony Wilhoit, which includes a copy of the
5 application for the proposed well, along with
6 exhibits.

7 At this time the Commission will take
8 appearances.

9 MR. WILHOIT: Mr. Chairman, members of
10 the Commission, my name is Tony Wilhoit. I'm an
11 attorney here on behalf of Chesapeake Appalachia.
12 And I have four witnesses to present evidence in
13 this hearing, Mr. Keith Moffatt, Mr. Robert A.
14 Paolini and Jeffrey Cable and Mr. Robert E.
15 Schindler. Those will be the witnesses I'd ask
16 to be sworn for testimony at this hearing.

17 MR. LAY: Will the reporter please swear
18 the witnesses.

19 Said witnesses, having been first duly sworn,
20 deposed as follows:

21 MR. LAY: You made proceed.

22 MR. WILHOIT: Thank you. I call
23 Mr. Keith Moffatt first.

24

1 EXAMINATION OF KEITH MOFFATT

2 BY MR. WILHOIT:

3 Q. Would you state your full name for the
4 record.

5 A. Sure. Keith Moffatt, M-O-F-F-A-T-T.

6 Q. And what is your occupation or
7 position?

8 A. I'm an in-house attorney for Chesapeake
9 Appalachia.

10 Q. All right, sir. And in connection with
11 your responsibilities as an in-house attorney
12 with Chesapeake are you familiar with this
13 application that is currently pending before this
14 board?

15 A. Yes, I am.

16 Q. And is Chesapeake Appalachia an operator
17 within the meaning of West Virginia Code 22C-9-2,
18 Paragraph 4?

19 A. Yes, it is.

20 Q. Are you asking the board then to
21 consider your request to pool certain unleased
22 interests into a unit and to order an exception
23 to the spacing requirements of the rule set up
24 for this field?

1 A. Yes, that's the request set forth in the
2 application.

3 Q. All right, sir. Are you familiar with
4 the field where you're asking for this order to
5 be entered, the Tuscarora -- the Indian Creek
6 Field?

7 A. Yes, it's the Indian Creek Field which
8 was established, I believe, in 1975 through a
9 special field order issued by the Oil and Gas
10 Conservation Commission establishing 640 acres
11 drilling unit.

12 Q. All right, sir. Were the spacing
13 requirements included within that special field
14 rule?

15 A. Yes. The special field order also
16 required that wells be located 1,500 feet from
17 the unit boundary line.

18 Q. All right, sir. Attached to your
19 application before this Commission is Exhibit
20 No. 1, would you explain to the board what that
21 exhibit depicts?

22 A. Exhibit No. 1 shows -- the outer dotted
23 line is the 640 acre drilling unit for Block 108,
24 and then inside that you have the inner red

1 dotted line which shows the window in which the
2 well is supposed to be located. That's the
3 window showing the boundary 1,500 feet from the
4 unit boundary. And then we've also depicted the
5 tracts which are located within Block 108, and
6 then we depicted a spot showing the proposed
7 location for the well we would like to drill,
8 Well No. 824215.

9 Q. All right, sir. Exhibit 2 to the
10 application, would you explain briefly what that
11 is? We'll establish it more so with another
12 witness, but...

13 A. Sure. Exhibit 2 shows deep wells which
14 are located within a two-mile radius from the
15 proposed well, 824215.

16 Q. Is it in compliance with the statute
17 regarding this exhibit to the application?

18 A. That's correct.

19 Q. Exhibit No. 3, what would that be?

20 A. Exhibit No. 3 is the AFE for the
21 proposed well, which was prepared by Rob
22 Schindler who will testify later this morning.

23 Q. Exhibit 4?

24 A. Exhibit 4 is the Certificate of Consent

1 and Easement signed by the surface owner at the
2 well site for the proposed well location.

3 Q. This is also in compliance with statutes
4 regarding the acquisition of the consent from the
5 surface owner?

6 A. That's correct.

7 Q. All right, sir. Exhibit No. 5, can you
8 explain to the board what this document is?

9 A. Exhibit No. 5 is a list of the owners we
10 would like to force pool at this hearing, and it
11 shows their interests in the 640 acre unit.

12 Q. Does the top chart show that
13 approximately 9.5 percent, 9.6 percent of the
14 unit is what you're asking the board to pool?

15 A. That's correct.

16 Q. And that all these people are unknown
17 and unlocatable?

18 A. That's correct. And we do have a
19 witness, Bob Paolini, who will speak to the
20 efforts made to locate these individuals.

21 Q. The bottom chart on Exhibit No. 5 sets
22 out certain individuals and certain interests,
23 and would you explain to the board what that
24 indicates or represents?

1 A. Tract 3.

2 Q. Yes.

3 A. That also shows a list of unleased
4 mineral owners that we're asking the Commission
5 to force pool, because just like with Tract 2 we
6 were unable to locate the individuals shown in
7 that chart.

8 Q. And they represent about 14 percent?

9 A. No, it's .13 percent. It's less than
10 one half percent. And then as part of our
11 application or request we would ask that the
12 order incorporate alternatives that these
13 individuals would be allowed to exercise to share
14 in the production from the proposed well. And
15 the statute contains two options, and we would
16 ask that those options be incorporated in the
17 order. And that if the individuals do not make
18 an election within ten days, I think is
19 customary, then they be deemed to have elected
20 the second option proposed in the forced pooling
21 statute.

22 Q. Now, again, with respect to this 33.66
23 acres at the bottom of Exhibit No. 5, these
24 tracts are actually under lease but they do not

1 have a unitization provision; is that what you're
2 asking for to modify?

3 A. That's correct.

4 Q. All right. Now, to the best of your
5 knowledge will the granting of this application
6 and the relief requested therein accomplish the
7 goals set out by the legislature for the
8 encouragement and promotion of the development
9 and production of oil and gas reserves and the
10 prevention of waste?

11 A. Yes, it will.

12 Q. Will it also encourage the maximum
13 recovery of oil and gas from Unit Block No. 108?

14 A. Yes, it will.

15 Q. Will it protect and prevail the rights
16 of the other operators or other interest owners
17 in the area?

18 A. Yes.

19 Q. All right, sir. And with respect to the
20 modification then, if the board grants the
21 modification, then this will not interfere with
22 or alter development of spacing pattern of the
23 total area encompassed within the special field
24 rules; is that correct?

1 A. That's correct.

2 Q. All right, sir.

3 A. But I do need to correct an answer.

4 With regard to Tract 3, Tract 3 is leased, the
5 lease does have a pooling clause. What lease
6 No. 3 may not cover would be CO2. The production
7 from this field, I believe, is about two-thirds
8 CO2 and one-third methane. And there has been an
9 issue raised in the past whether or not our
10 leases do in fact cover CO2.

11 And just to be safe we've asked that be --
12 these individuals be pooled into the unit so that
13 it is clear that their entire mineral interest,
14 oil and gas interest, is pooled into the unit.
15 And this Commission has in the past pooled these
16 individuals under the same circumstances into
17 other drilling units.

18 Q. So their leases do have pooling
19 provisions, they just need to be modified to
20 cover CO2?

21 A. Arguably, yes. There is an issue
22 whether or not the leases do cover CO2. We just
23 want to be --

24 Q. That's less than 1 percent?

1 A. -- 100 percent sure.

2 That's correct.

3 Q. And all the others do have provisions to
4 cover CO2?

5 A. That's correct.

6 Q. I want to make sure we're clear on it.

7 MR. WILHOIT: That's all the questions I
8 have of this witness.

9 MR. LAY: Questions from members of the
10 Commission?

11 MR. RADABUGH: Nothing right now.

12 MR. GUM: None for me.

13 MR. LAY: Brett?

14 MR. LOFLIN: No.

15 MR. LAY: Call your next witness.

16 MR. WILHOIT: Mr. Robert Paolini.

17 EXAMINATION OF ROBERT PAOLINI

18 BY MR. WILHOIT:

19 Q. Mr. Paolini, would you state your full
20 name for the record, please?

21 A. Robert A. Paolini.

22 Q. How are you employed, Mr. Paolini?

23 A. I'm a senior land man for Chesapeake
24 Appalachia.

1 Q. In that capacity are you familiar with
2 this application currently pending before the
3 board?

4 A. Yes, I am.

5 Q. In connection with Exhibit No. 5, these
6 unleased parties that the application requests be
7 pooled into this unit, have you made an attempt
8 to locate and contact these people?

9 A. Yes, I have.

10 Q. Would you explain to the board your --
11 were you successful in trying to contact these
12 people?

13 A. No, I wasn't.

14 Q. Could you explain to the board the
15 efforts you used to try and locate and contact
16 these people?

17 A. I researched courthouse records and the
18 assessor's records here in Kanawha County, the
19 old land books from the '40s and '50s when this
20 property was assessed. I made some phone calls,
21 calling information, getting names of similar --
22 similar surnames in the town in Pennsylvania
23 where most of these people were located back in
24 the 1940s. But I found no one that knew of them

1 or were any heirs of them. This property was
2 abstracted back in '82 and people at that time
3 made similar searches and were unable to locate
4 them, anyone.

5 Q. In your professional judgement have you
6 exercised due diligence to try to locate these
7 people?

8 A. Yes, I have.

9 Q. Have you exhausted all resources you
10 know how to look?

11 A. Yes, I have.

12 Q. Now, Exhibit No. 4, are you familiar
13 with that?

14 A. Oh, yes. The consent and easement, yes.

15 Q. Were you involved in obtaining that
16 requirement?

17 A. Yes, I did. I submitted this to
18 Dickinson Properties.

19 Q. Is their signature on there?

20 A. Yes.

21 Q. And you're familiar with Exhibit No. 5,
22 and as Mr. Moffatt has already explained, the
23 Tract 2, these are the interests that are unknown
24 and we're asking to be pooled into the unit, and

1 as far as Tract 3 is concerned these are the
2 interests that are leased but you're asking for a
3 modification of their lease agreement to cover
4 CO2?

5 A. Yes.

6 Q. With respect to these people, they're
7 all unknown and they'll be escrowed anyway in any
8 form or fashion?

9 A. Yes, they've been escrowed. We force
10 pooled them back in '84 because they could not be
11 located.

12 Q. All right, sir.

13 A. And I did make Internet searches trying
14 to locate anyone now.

15 MR. WILHOIT: That's all I have of this
16 witness.

17 MR. LAY: Questions from members of the
18 Commission?

19 BY MR. RADABUGH:

20 Q. I guess when this lease was originally
21 obtained, were these people or their ancestors
22 before them actually leased or -- is there a
23 legal issue other than with the Commission about
24 the lease?

1 A. I do not believe so, no. The lease is a
2 valid lease with 100 percent interest, full
3 interest.

4 MR. RADABUGH: That's what I'm getting
5 at.

6 MR. LAY: I have one question.

7 BY MR. LAY:

8 Q. It appears that Tract No. 2 you're
9 talking about the entire mineral estate, who's
10 paying taxes on that property?

11 A. No one now. It disappeared from the
12 land book. Within my search of the old land book
13 it was on until the early '50s, and then the
14 mineral assessment disappeared. The property was
15 sold in the late '40s, I believe, by the coal
16 company to Dicksport Coal Company, and they
17 reserved the minerals. And then the Perrysburg
18 Coal Company, who was the owner until they sold
19 the service to Dicksport, reserved the oil and
20 gas. And then they went bankrupt in
21 Pennsylvania. And the company, Perrysburg Coal
22 Company, was dissolved, the corporation was
23 dissolved. And shortly thereafter, a few years
24 later, on the land books the assessment

1 disappeared.

2 MR. MOFFATT: If I may, I believe Bob is
3 correct. These individuals are not being
4 assessed with the mineral estate, but I believe
5 the mineral estate is incorrectly being assessed
6 to the surface owner, but the surface owner is
7 not claiming ownership of the oil and gas. So
8 taxes are being paid by the surface owner even
9 though -- incorrectly -- but even though the
10 surface owner is not claiming the oil and gas
11 estate. Dickinson Property is being accessed
12 with fee title.

13 MR. LAY: Does Dickinson own both the
14 surface on Tract 2 and 3? Looking at the map, I
15 guess this is the proper -- my question is
16 concerning the location itself.

17 MR. MOFFATT: Tract 2 and 4.

18 MR. LAY: 2 and 4, okay.

19 MR. MOFFATT: Right, they own the
20 surface on Tract 2 and on Tract 4.

21 MR. LAY: All right. There has been no
22 attempt by Chesapeake to clear up that assessment
23 in order to acquire title on the property because
24 of the estate?

1 MR. MOFFATT: Right. As far as I know
2 we've made no effort to try to acquire title to
3 that tract.

4 MR. LAY: Is this something that you
5 would go forward with after the well is drilled?

6 MR. MOFFATT: I guess I'm not clear on
7 what exactly you're asking for. We have oil and
8 gas ownership owned by some unknown individuals.
9 You have the surface owned by Dickinson
10 Properties. And right now in terms of payment of
11 taxes, Dickinson Property is paying 100 percent
12 of the taxes for that property.

13 I don't think there's a title dispute
14 regarding ownership of the various estates in the
15 tract, there just may be an incorrect tax
16 assessment.

17 MR. LAY: Okay.

18 MR. MARTIN: Is Dickinson paying mineral
19 taxes on Tract 4? Have they been assessed for
20 the minerals on Tract 4 also?

21 MR. MOFFATT: I believe so.

22 MR. MARTIN: Is that also an incorrect
23 assessment or do they own the minerals on the
24 Tract 4?

1 MR. MOFFATT: Do you have that title
2 information, Bob?

3 MR. PAOLINI: I don't have the title
4 with me, but I want to say yes, they do own it.
5 But without having the title in front of me I
6 can't say for sure.

7 MR. LAY: Any other questions? Brett,
8 do you have any?

9 MR. LOFLIN: No, I have no questions.

10 MR. LAY: Call your next witness.

11 MR. WILHOIT: The next witness we call
12 would be Mr. Jeffrey P. Cable.

13 EXAMINATION OF JEFFREY P. CABLE

14 BY MR. WILHOIT:

15 Q. Mr. Cable, would you state your full
16 name please for the record.

17 A. Jeffrey P. Cable.

18 Q. Where are you employed, sir?

19 A. Chesapeake Energy, I'm the senior
20 reservoir engineer.

21 Q. Are you familiar with the application
22 currently pending before this board?

23 A. Yes, I am.

24 Q. Would you explain to the board what the

1 objective formation total depth would be?

2 A. 6,950 feet.

3 Q. Is it going to be a commercial well in
4 your opinion?

5 A. Yes, it will.

6 Q. What are the potential reserves?

7 A. 1.8 billion cubic feet.

8 Q. Are you familiar with Exhibit 2?

9 A. Yes.

10 Q. Does that accurately reflect the well
11 status as far as wells within two miles of the
12 proposed location?

13 A. That's correct. Those are all
14 Chesapeake Energy wells, they're all Tuscarora
15 wells as well.

16 Q. Are you familiar with the well costs or
17 the operating costs to be associated with this
18 well?

19 A. Yes.

20 Q. Would you explain to the board what
21 those would be?

22 A. They would be \$876.45 a month, and that
23 would include direct labor and vehicles,
24 materials and overhead costs.

1 Q. Is that based on actual costs or
2 estimated costs?

3 A. It's based on actual costs that we incur
4 in that field.

5 Q. Of course actual cost on this particular
6 well would be determined at a later date; is that
7 correct?

8 A. Yeah.

9 Q. So you're basing on history in the
10 field?

11 A. Based on history.

12 MR. WILHOIT: That's all the questions I
13 have of this witness.

14 MR. LAY: Questions from the Commission?

15 MR. GUM: Not me.

16 MR. RADABUGH: No.

17 BY MR. MARTIN:

18 Q. I want to make sure I understand that
19 wells in the two-mile radius -- can you tell me
20 how many we're showing here and who operates
21 them?

22 A. There's five wells, and they're all
23 operated by Chesapeake.

24 Q. What zone are these in?

1 A. They're all Tuscarora.

2 MR. MARTIN: Thank you.

3 MR. LAY: I was looking at the AFE, it
4 seems to be rather expensive for a 6,900 foot
5 well, can you explain why?

6 MR. WILHOIT: I have another witness who
7 is going to -- he actually prepared the AFE and
8 we'll let them explain that if you prefer.

9 MR. LAY: That's fine.

10 MR. MARTIN: Is that other witness going
11 to testify regarding the location?

12 MR. WILHOIT: Yes.

13 MR. LOFLIN: I have one question. This
14 may be a question better for someone else, but
15 within the Unit Block 108, other than the
16 unleased tract, are there any other operating
17 interests within that tract, any other operators
18 that would be willing or want to be the operators
19 in that unit?

20 MR. PAOLINI: No.

21 MR. MOFFATT: No. And to clarify, or to
22 answer a question that Mr. Martin posed, I do
23 have information regarding the ownership of the
24 oil and gas under Tract 4. It is owned by

1 Dickinson. They own the oil and gas under Tracts
2 4, 5 and 6.

3 MR. MARTIN: Thank you.

4 MR. LAY: Call your next witness.

5 MR. WILHOIT: Mr. Robert Schindler.

6 EXAMINATION OF ROBERT SCHINDLER

7 BY MR. WILHOIT:

8 Q. Would you state your full name, please,
9 for the record?

10 A. Robert E. Schindler.

11 Q. How are you employed, Mr. Schindler?

12 A. I'm a senior engineer for Chesapeake
13 Appalachia, LLC.

14 Q. In connection with your employment are
15 you familiar with this application?

16 A. Yes, sir.

17 Q. Are you familiar with the AFE or the
18 Authority For Expenditure that's attached thereto
19 as Exhibit 3?

20 A. Yes, I am.

21 Q. Would you explain to the board then what
22 the total cost of this well will be, dry hole?

23 A. The total dry hole cost is \$638,044.

24 Q. What will be the total cost of

1 completion?

2 A. 1,057,404.

3 Q. All right, sir. Did you prepare this
4 AFE?

5 A. Yes, I did.

6 Q. Are you prepared to answer any questions
7 the board may have concerning the AFE?

8 A. Yes, I am.

9 Q. Now, with respect to the exception from
10 the spacing requirements that are established in
11 this field, are you familiar with Exhibit No. 1
12 that depicts the proposed location?

13 A. Yes, I am.

14 Q. Is that location approximately 1,449
15 feet from the boundary line of the unit?

16 A. Yes.

17 Q. Would you explain to the board why it is
18 not possible to locate the well within the inside
19 window where the location should be according to
20 the special rules?

21 A. Yes. The reason we're asking for the
22 exception -- of course in this case 51 feet isn't
23 a whole lot, it doesn't seem like very much, but
24 we have searched that area out there thoroughly,

1 you can see there is some roads going through
2 there, cemetery, there is houses, these wells
3 normally encounter H2S, so we like to be up on
4 the ridgetops or as near the ridgetops as we can,
5 and if you moved over that 51 feet in this
6 particular spot you've moved over the edge of the
7 hill. H2S, being heavy, would go down, and for
8 safety reasons we would like to be granted the
9 exception to the 1,500 foot from the outer unit
10 boundary.

11 Q. Are you familiar with what's designated
12 as Tract No. 2 on the plat?

13 A. Yes, I am.

14 Q. Is that the tract where the unleased
15 interests are?

16 A. Yes.

17 Q. And those are the interests we're asking
18 the board to pool into this unit; is that
19 correct?

20 A. That's correct.

21 Q. And in connection with those people,
22 since they are unleased, then we have no consent
23 from those people; is that correct?

24 A. Correct.

1 Q. And the statute does require not only
2 surface owner consent but mineral owner consent?

3 A. That's correct.

4 Q. And so we couldn't place a well on that
5 tract?

6 A. Anywhere on Tract No. 2, which takes up
7 a considerable portion of that inner square.

8 Q. All right, sir. And so this is the
9 location that you find would be the best suited
10 to place this well at this particular location to
11 drain and to effectively produce minerals under
12 Unit Tract 108?

13 A. That's correct.

14 MR. WILHOIT: That's all I have.

15 MR. LAY: Questions from members of the
16 Commission?

17 MR. MARTIN: I have one, Barry.

18 BY MR. MARTIN:

19 Q. Approximately how many acres does the
20 window encompass within that 640 acre unit? The
21 drilling window that's depicted on here, how many
22 acres is that approximately? Do you know
23 offhand?

24 A. How many acres is it?

1 Q. Yes.

2 A. I don't know how many acres that would
3 be. I could calculate it, but...

4 MR. CABLE: How long is that square?
5 What's one side of the square, do you know?
6 2,500 feet?

7 MR. LAY: One mile less 1,500 feet off
8 each side, so one mile less 3,000 feet, 2,820
9 feet.

10 MR. CABLE: Square that.

11 Q. (By Mr. Martin) The reason I ask that
12 question, I'm just curious within that X-acreage,
13 whatever it might turn out to be, and I
14 understand the point you made about -- I'm not
15 sure -- well, I heard what you said regarding
16 Tract 2, I'm not sure I understand that. But
17 what you're saying is that there is essentially
18 no place within that acreage, whatever it is --
19 did anybody calculate that -- that you can put
20 this location?

21 A. That's correct.

22 MR. LAY: Approximately a quarter-acre
23 section, so probably 160 acres roughly.

24 Q. So within the 160 acres there's no place

1 that this will work for you? I understand what
2 you're saying, Tract 2 is the big problem -- a
3 big part of that problem.

4 A. You know, we're obligated, because of
5 State law, to stay off of that tract.

6 MR. MARTIN: I guess I have that
7 question, and maybe we need to talk about that.
8 I'm a little confused as to what --

9 MR. LAY: You can't develop a tract
10 that's force pooled. You can't drill on a tract
11 that's force pooled.

12 MR. SCHINDLER: You can't drill on the
13 tract that you're force pooling.

14 MR. WILHOIT: How many square feet in an
15 acre?

16 MR. CABLE: Forty-three-five-sixty.

17 MR. WILHOIT: 182.56 acres.

18 MR. MARTIN: So probably half of that is
19 Tract 2. I guess Tract 2 --

20 MR. SCHINDLER: Approximately half of
21 that acreage, whatever it is, is already
22 eliminated.

23 MR. MARTIN: Okay.

24 MR. WILHOIT: The statute is kind of

1 weird, it requires you to have surface owner
2 consent, it's mandatory, to get a permit to
3 drill. But in the preceding page the next Code
4 section over it says that you cannot drill a well
5 on a tract that's not -- if you don't have
6 consent from the mineral owners. So you have to
7 have mineral owner consent as well as surface
8 owner consent. But in this case when the mineral
9 owners are unlocatable and you can't find them,
10 here we go. The same problem we had with CBM.

11 MR. LAY: There is a consent -- it's not
12 really a consent, it's just a prevention --

13 MR. WILHOIT: You can't drill.

14 MR. LAY: -- without having them leased
15 you can't drill on a forced pool tract, basically
16 is what the intent was.

17 MR. MOFFATT: The statute reads, Each
18 such pooling order shall be upon terms and
19 conditions which are just and reasonable, and in
20 no event shall drilling be initiated on the tract
21 of an unleased owner without the owner's written
22 consent.

23 MR. WILHOIT: If you can't find them,
24 you can't get it, so you can't drill on it. So

1 that's why Tract 2 is out, as far as the
2 location.

3 MR. LAY: Marty, do you have any other
4 questions? I have one.

5 BY MR. LAY:

6 Q. The topography is such and this is a
7 developed area, culture prevents you from moving
8 the location within the window? You don't have
9 any other possible location?

10 A. Yes. The terrain out there is quite
11 steep, and when you get off that side, like I
12 said, that would allow -- the primary reason is
13 safety, not wanting to get off the edge of those
14 hills where it's not -- you know, it's a straight
15 shot down to the houses. And yes, the topography
16 is quite steep out there. So when you move over
17 and start over that edge then something heavy
18 like H2S would, you know, going down that hill.

19 Q. Okay. Then I guess I want to go back to
20 my question, unless somebody else has a question
21 about the plat or the exception.

22 Can you basically explain to me why the AFE
23 is so expensive?

24 A. Yes, I can. This is what we call a CO2

1 well, as someone stated earlier the field is
2 approximately 66 percent CO₂, 33 percent methane
3 and 1 percent other gases, some of which are
4 sulfur compounds. But what that means in terms
5 of this AFE is, one, there is some higher price
6 tubulars in the well than there normally is, and
7 the well head is stainless steel, the well heads
8 in West Virginia typically cost 500 bucks, these
9 are in the realm of a hundred times that
10 expensive for that type of equipment.

11 And then also, being a deeper well, when
12 it's stimulated you can't use regular frac sands
13 above the crust gradient of sand. So you have to
14 buy a higher priced proppant to do that, you have
15 to have your rental equipment out there to
16 monitor that H₂S, just those sort of things are
17 what drive the AFE cost up on this particular
18 well.

19 Q. And you're encountering H₂S in the
20 Hildeburgh or somewhere besides the Hildeburgh?

21 A. The primary source of the H₂S is that
22 Salina section, it seems to move around in
23 there. And then there are sulfur compounds in
24 the Tuscarora itself also.

1 Q. So the gas you've encountered in the
2 Tuscarora has been sour as well?

3 A. It would be termed as sweet because of
4 the low concentration of H₂S, but it does have
5 sulfur compounds in it.

6 Q. Your casing you're running -- are you
7 setting pipe -- your 7-inch, where are you
8 setting that?

9 A. The 7-inch is set through the Oriskany,
10 and the reason for that is we stop -- you know,
11 typically you could drill that well on the TD
12 without setting that 7-inch, which means the
13 7-inch could be clear back up the hole through
14 the bree or something, but we need to be able to
15 circulate that hole. If we do indeed encounter
16 the H₂S that we anticipate, then we have to drill
17 on the fluids, and if you leave the Devonian
18 shale section open it will break down and not
19 circulate.

20 Q. You're running a J Grade 7-inch through
21 an H₂S so it will be exposed to an H₂S zone?

22 A. That's correct. As it turns out, the
23 lower the grade of the steel, I think you'll see
24 that's 23 pounds J, which is heavier pipe than

1 you normally run, but the lower the grade of the
2 steel the less susceptible it is to H2S.

3 Q. Okay. But I see quite a few -- or what
4 appears to be a significant increase in drilling
5 cost over a typical well, \$24 per foot for top
6 hole, is that a reasonable drilling contract?

7 A. That is the price -- we have a rig under
8 contract to drill this particular well, and with
9 the fuel adjustment added in that's what we
10 anticipate the price to actually be.

11 MR. LAY: Okay. Questions from --
12 Brett, do you have any questions?

13 MR. LOFLIN: No, I don't have a question
14 at this time.

15 MR. LAY: Mr. Wilhoit, you can call your
16 next witness.

17 MR. WILHOIT: I just want to ask
18 Mr. Cable, would you repeat what the potential
19 reserves were? I didn't get to write that down.

20 MR. CABLE: 1.8 billion cubic feet.

21 MR. WILHOIT: That's all the witnesses'
22 testimony evidence that we would submit at this
23 time.

24 MR. LAY: Anything from members of the

1 Commission? Staff?

2 MR. LOFLIN: Yes, I have another
3 question, probably directed for Keith. Just to
4 be clear, what you're going to be requesting on
5 the forced pooling, I understand Tract 2, from
6 your testimony earlier, what you're going to
7 request, what you'd like to see reflected in the
8 order is a statement that these owners have a
9 certain amount of time to elect which option they
10 would like to participate under, under
11 22-C-9-7(b)4, basically, or 5, and probably what
12 that is going to say, and I think what we've done
13 in the past, if they do not make an election
14 within those ten days then they would be deemed
15 to have picked Option B, which would be
16 participate on a carried basis; is that correct?

17 MR. MOFFATT: That's correct.

18 MR. LOFLIN: I'm fine with that. I'm a
19 little confused still maybe on the Tract 3, and
20 what you're asking for. You do have a lease, you
21 have pooling, but you're asking for some language
22 in the order that would modify the lease to
23 ensure that the C02 portion of the gas was
24 included in the pooling order? I guess I'm still

1 just a little confused on how we're going to word
2 that and what their options are going to be.

3 MR. MOFFATT: Well, I'm not sure we're
4 asking that the lease be modified. Some folks
5 have argued that CO2 is not covered by the lease,
6 if it's not covered then we're asking that the
7 production right for the CO2 be force pooled into
8 the unit, so if it's force pooled then, with
9 regard to CO2 production, you fall under the
10 statutory options in making your election. And
11 that's how we've treated it in the past with
12 regard to the individuals of Tract 3.

13 MR. LOFLIN: Okay.

14 MR. MOFFATT: So you treat it as
15 unleased, they have the election to follow Option
16 One or Option Two; if they don't make an election
17 we go to Option Two, which is B, and then we just
18 escrow the proceeds attributable to that
19 interest.

20 MR. LAY: In that case would you escrow
21 only the revenue from the CO2 stream?

22 MR. MOFFATT: We'll escrow everything.
23 We have an eighth covered by -- the oil and gas
24 is covered by -- the methane is covered by the

1 lease, so we'd escrow an eighth. With regard to
2 the CO2 then we would follow the Option B.

3 MR. LAY: You lost me, because in tract
4 3 you have a lease which allows you to market the
5 natural gas --

6 MR. MOFFATT: That's correct.

7 MR. LAY: -- cash flow stream. So you
8 would pay those individuals -- well, in this case
9 they're unknown, but they would receive their
10 proportionate share of -- well, I guess it's all
11 escrowed, because they're unknown.

12 MR. MOFFATT: That's right.

13 MR. LAY: That answers my question then
14 I guess. Okay, any other questions. If that's
15 all we'll go off the record.

16 (Discussion was held off the record.)

17 MR. LAY: Back on the record. Do we
18 have a motion?

19 MR. RADABUGH: I make a motion to grant
20 the request for pooling the location exception.

21 MR. GUM: I'll second that motion.

22 MR. LAY: It's been moved and seconded.
23 Any further discussion? All those in favor of
24 the motion, aye.

1 THE COMMISSION: Aye.

2 MR. LAY: Opposed, nay.

3 The motion carries.

4 The Commission grants the relief sought
5 under the application. We have a couple caveats
6 to that. First of all, that the costs
7 attributable to the interests that are force
8 pooled in the unknowns, those cost are to be at
9 Chesapeake's actual cost.

10 The second caveat is, once the final
11 accounting has been completed on the well, that a
12 copy of that accounting be submitted to the
13 Commission staff for review. And we'd also
14 request that counsel for Chesapeake resubmit a
15 draft order to staff for review.

16 MR. WILHOIT: All right, sir.

17 MR. LAY: Anything further from the
18 members of the Commission?

19 MR. GUM: No, sir.

20 MR. RADABUGH: No.

21 MR. LAY: Staff?

22 MR. LOFLIN: No.

23 MR. RADABUGH: I might just say next
24 time with your stuff you might send a topographic

1 sheet map, kind of more visual of what you're
2 requesting, as far as for your spacing purposes
3 and things so we can kind of see the terrain and
4 things a little bit better.

5 MR. LAY: In one of your exhibits at
6 that point, if you're requesting an exemption,
7 because the topography should be -- at least a
8 map depicting the topography of the area.

9 MR. WILHOIT: Okay. All right, sir.

10 MR. LAY: Anything further from the
11 Commission and staff?

12 MR. RADABUGH: No.

13 MR. LAY: Anything from Chesapeake?

14 MR. WILHOIT: That's all we have. Thank
15 you for your time.

16 MR. LAY: We'll close the record then.

17 (This hearing concluded at 11:10 a.m.)
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19
20
21
22
23
24

1 STATE OF WEST VIRGINIA,
2 COUNTY OF KANAWHA, to-wit:

3

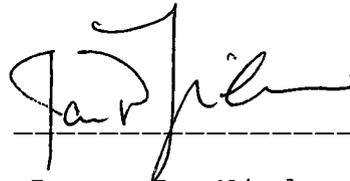
4 I, James D. Nielsen, Court Reporter and a
5 notary public within and for the county and state
6 aforesaid, duly commissioned and qualified, do
7 hereby certify that the foregoing hearing of the
8 West Virginia Department of Environmental
9 Protection Oil and Gas Conservation Commission
10 was duly taken by and before me at the time and
11 place specified in the caption hereof.

12 I do further certify that the said hearing
13 was correctly taken by me in stenotype notes,
14 that the same were accurately written out in full
15 and reduced to typewriting; and that said
16 deposition is a true record of the hearing.

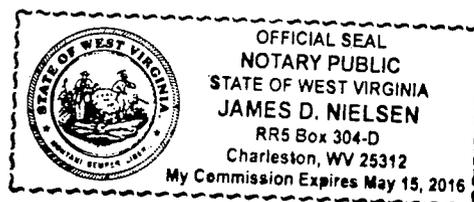
17 I do further certify that I am neither
18 attorney or counsel for, not related to or
19 employed by, any of the parties to the action in
20 which this hearing is taken, and further that I
21 am not a relative or employee of any attorney or
22 counsel employed by the parties hereto or
23 financially interested in this action.

24 My commission expires May 15, 2016.

Given under my hand this 8th day of
September, 2006.



James D. Nielsen
Court Reporter/Notary Public





west virginia department of environmental protection

Oil and Gas Conservation Commission
601 57th Street, SE
Charleston, West Virginia 25301

Joe Manchin III, Governor
www.wvdep.org

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

IN THE MATTER OF THE REQUEST BY CHESAPEAKE
APPALACHIA, LLC FOR AN EXCEPTION TO THE
REQUIREMENT OF CAUSE 28, ORDER 1; AND AN
ORDER FROM THE COMMISSION POOLING TRACTS
AND INTERESTS OF OIL AND GAS OWNERS FOR THE
DEVELOPMENT AND OPERATION OF UNIT BLOCK #108
IN THE TUSCARORA SANDSTONE POOL OF THE
INDIAN CREEK FIELD, MALDEN DISTRICT, KANAWHA
COUNTY, WEST VIRGINIA.

DOCKET NO. 171

CAUSE NO. 28

NOTICE OF HEARING

The Oil and Gas Conservation Commission in Cause 28, Order 1, established special field rules for the Tuscarora sandstone pool of the Indian Creek Field. The Order dictated that each drilling unit would encompass 640 acres and that each well shall be located not less than 1,500' from a unit boundary. Chesapeake Appalachia, LLC's (Chesapeake) proposed location for well 824215 in unit block #108 is 1,449' from a unit boundary, therefore; Chesapeake is requesting an exception to the spacing requirement in Cause 28, Order 1.

Additionally, Chesapeake is requesting an order from the Commission pooling the interests in tracts of certain owners (list attached) of the oil and gas in place in the Tuscarora formation in unit block #108 (map attached), consistent with and pursuant to the provisions of WV Code 22C-9-7(b) as amended. The matter is set for:

DATE: August 16, 2006

TIME: 10:00 am

PLACE: Department of Environmental Protection
Oil and Gas Conservation Commission
601 57th Street, SE
Charleston, WV 25304
(304)926-0499, Ext 1656

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

By: Barry K. Lay
Barry K. Lay, Commissioner

Dated this 27th day of July, 2006, at Charleston, West Virginia.

Promoting a healthy environment.

EXHIBIT

1

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

COMPLETE THIS SECTION ON DELIVERY

A. Signature

X

B. Received by (Printed Name)

Janne Bailey

C. Date of Delivery

 Agent AddresseeIs address different from item 1? YesDelivery address below: No

1. Chesapeake Appalachia, LLC
 Attention: Michael John
 P O Box 6070
 Charleston, WV 25362



APR 1 2006

 Certified Mail Registered Insured Mail Express Mail Return Receipt for Merchandise C.O.D.

4. Restricted Delivery? (Extra Fee)

 Yes

2. Article Number

(Transfer from service label)

7004 1350 0000 5717 5694

Cindy Raines - Online Open Governmental Meeting Act

From: <jcooper@wvsos.com>
To: <craines@wvdep.org>
Date: 7/27/2006 9:10 AM
Subject: Online Open Governmental Meeting Act

Your meeting for the following has been received and posted to the internet.

Agency: Oil and Gas Conservation Commission
Date: August 16, 2006
Time: 10:00 AM
Location: DEP 601 57th Street, SE Charleston, WV 25304

Your meeting notice has been accepted by the Secretary of State's office. This is the only copy of this meeting notice we need. Do not mail, email or fax another copy. Acceptance of this meeting notice does not indicate compliance with the Open Governmental Proceedings Act.





west virginia department of environmental protection

Oil and Gas Conservation Commission
601 57th Street, Charleston, WV 25304

Joe Manchin III, Governor
Stephanie R. Timmermeyer, Cabinet Secretary
www.wvdep.org

July 27, 2006

The Charleston Daily Mail
Attention: Legal Ad
1001 Virginia Street, East
Charleston, WV 25301

RE: Legal advertisement

Dear Sirs:

Please publish the enclosed "Notice of Hearing" as a legal advertisement on Wednesday, August 2 and again on Wednesday, August 9, 2006 and send invoice to:

Oil and Gas Conservation Commission
601 57th Street, SE
Charleston, WV 25304

If you have any questions, please call me at 304.926.0499, ext 1656.

Sincerely,

Cindy Raines
Adm. Secretary

encl:

Promoting a healthy environment.





west virginia department of environmental protection

Oil and Gas Conservation Commission
601 57th Street, SE
Charleston, West Virginia 25301

Joe Manchin III, Governor
www.wvdep.org

BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

IN THE MATTER OF THE REQUEST BY CHESAPEAKE APPALACHIA, LLC FOR AN EXCEPTION TO THE REQUIREMENT OF CAUSE 28, ORDER 1; AND AN ORDER FROM THE COMMISSION POOLING TRACTS AND INTERESTS OF OIL AND GAS OWNERS FOR THE DEVELOPMENT AND OPERATION OF UNIT BLOCK #108 IN THE TUSCARORA SANDSTONE POOL OF THE INDIAN CREEK FIELD, MALDEN DISTRICT, KANAWHA COUNTY, WEST VIRGINIA.

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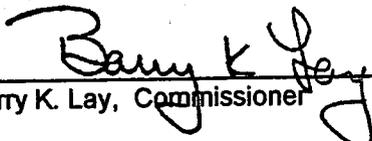
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601 57th Street, SE
Charleston, WV 25304
(304)926-0499, Ext 1656

OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA

By: 
Barry K. Lay, Commissioner

Dated this 27th day of July, 2006, at Charleston, West Virginia.

Promoting a healthy environment.

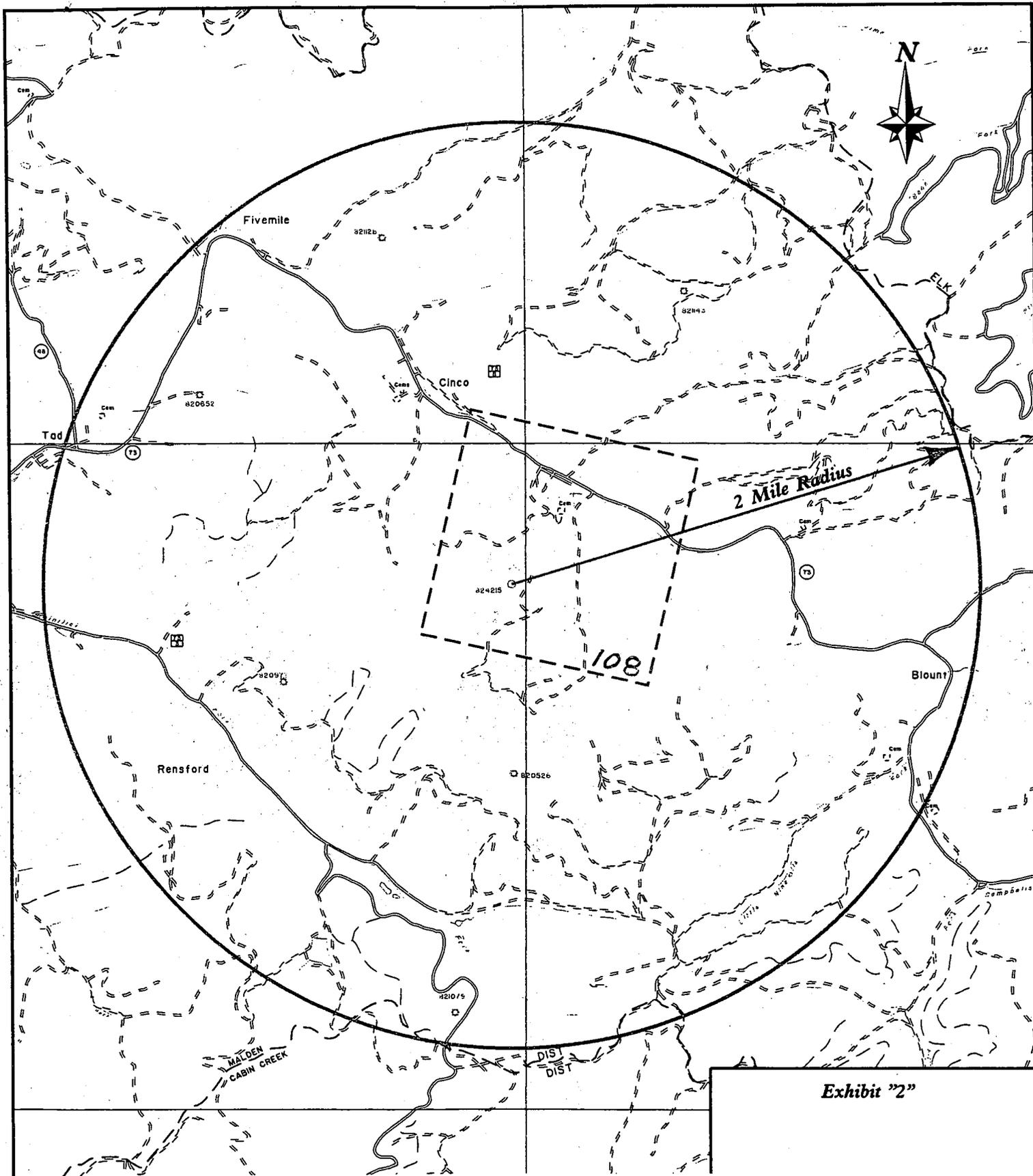


Exhibit "2"

WILHOIT & KAISER

Attorneys at Law

ANTHONY A. WILHOIT
JAMES E. KAISER

July 18, 2006

Shallow Gas Well Review Board
Department of Environmental Protection
601 – 57th Street
Charleston, WV 25304

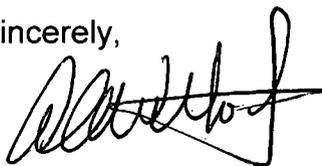
Attention: Cindy Raines

Re: In the Matter of the Application of Chesapeake Appalachia, L.L.C.
For an Order from the Commission Pooling Tracts and Interests of
Oil and Gas Owners in the Absence of a Voluntary Agreement for
The Development and Operation of Unit Block 108 in the Tuscarora
Sandstone Pool of the Indian Creek Field, Malden District, Kanawha
County, West Virginia, Pursuant to West Virginia Code 22C-9-7(b),
As Amended, and for an Order Granting a Well Location Spacing
Exception to the Minimum Distance Requirements Applicable to the
Indian Creek Field, Pursuant to West Virginia Code 22-C-9-7(a)(6),
As Amended

Dear Ms. Raines:

Enclosed for filing is Chesapeake Appalachia, L.L.C.'s Application in the captioned matter. If everything is in order, please set the matter for hearing and advise us of the time and date. If you have any questions or need additional information, please call me.

Sincerely,



Anthony A. Wilhoit

Enclosure

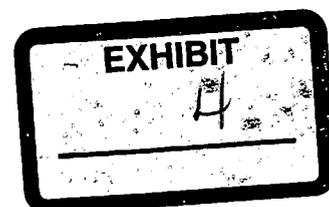
L:\Tink\Forced Pooling\DEP.ApplicationFiling.7.18.06.doc

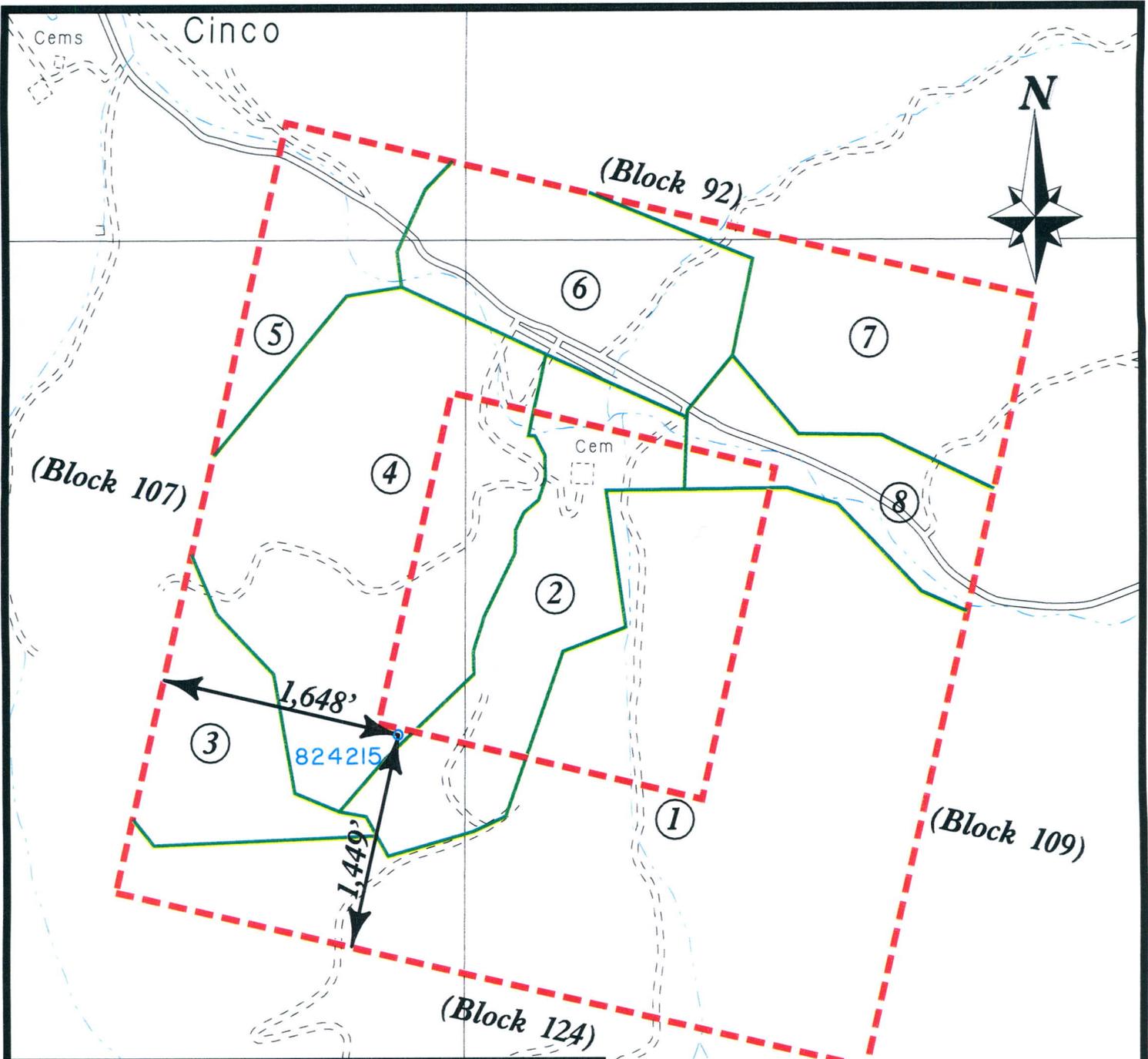
West Virginia Office:

300 Capitol Street
Suite 1121
P. O. Box 1389
Charleston, West Virginia 25325
304-346-5291
304-346-6849 fax

Tennessee Office:

220 Broad Street
Suite 202
Kingsport, Tennessee 37660
423-578-3838
423-578-3833 fax





Well No. 824215
Block 108 - Indian Creek Field
Malden District, Kanawha County, WV

Tr. 1	244.27 acres
Tr. 2	61.37 acres
Tr. 3	33.66 acres
Tr. 4	123.41 acres
Tr. 5	34.06 acres
Tr. 6	56.83 acres
Tr. 7	54.56 acres
Tr. 8	31.84 acres

Total 640.00 acres

Exhibit "I"

NOTICE

This map/plot reflects only the approximate location of the depicted natural gas facilities (including property and property lines, lease and lease boundary lines). Chesapeake Energy Corporation does not warrant the accuracy or completeness of the depiction. Furthermore, this map/plot is the property of Chesapeake Energy Corporation and may contain confidential and/or proprietary information. It may not be copied or otherwise made available to any other party without prior written consent from Chesapeake Energy Corporation. Chesapeake Energy Corporation expressly disclaims responsibility for any action, activity or decision by a third party on the basis of the information depicted on this map/plot. Call or write:

MANAGER, TECHNICAL SERVICES
 CHESAPEAKE ENERGY CORPORATION
 P.O. BOX 6070
 CHARLESTON, WV 25362-0070
 (304) 383-5000

Quadrangle
 Location:



Quick, WV



SCALE: 0 500 1000

Technician: ssimms
 Plot Date: 18-JUL-2006
 g:\Law\Jeff Shafer\824215ex1.bor

THIS MAP MAY NOT REFLECT TRACTS LESS THAN 10 ACRES

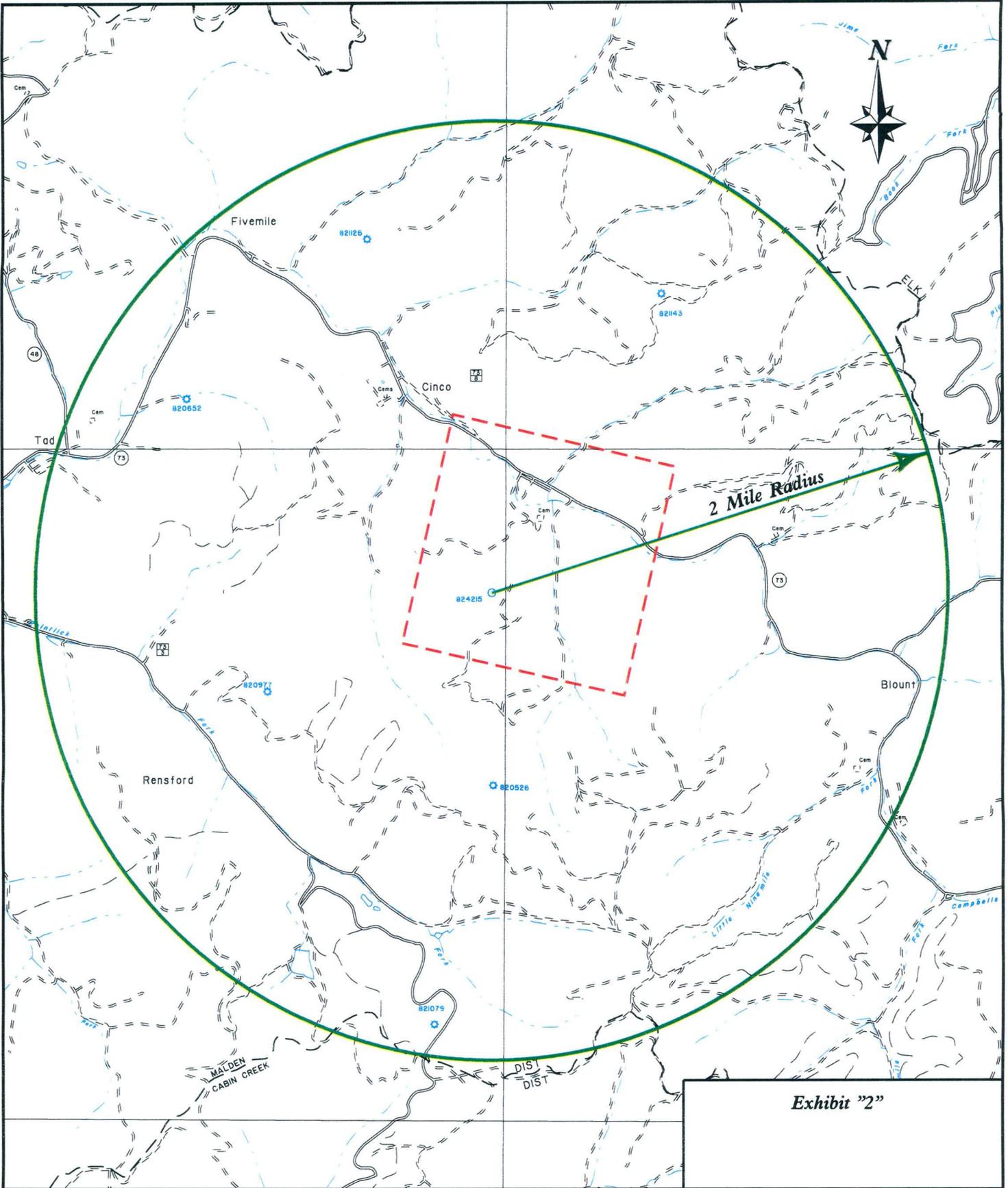


Exhibit "2"

NOTICE
 This map reflects only the approximate location of the described natural gas facilities including property and property, tract, lease and later boundary lines. Chesapeake Energy Corporation does not warrant the accuracy or completeness of the information. Furthermore, this map is the property of Chesapeake Energy Corporation and may contain confidential and proprietary information. It may not be copied or otherwise made available to any other party without prior written consent from Chesapeake Energy Corporation. Chesapeake Energy Corporation expressly disclaims responsibility for any action, activity or inaction in a third party on the basis of the information depicted on this map. Call or write:

MANAGER TECHNICAL SERVICES
 CHESAPEAKE ENERGY CORPORATION
 P.O. BOX 6200
 CHARLESTON, WV 25302-0020
 (304) 363-6500

THIS MAP MAY NOT REFLECT TRACTS LESS THAN 10 ACRES

Quadrangle
 Location:

??????



SCALE:
 0 1500 3000

Technician: asmmms
 Plot Date: 18-JUL-2006
 g:\Law\Jeff Shafer\324215ex2.bar



BUDGET NO. _____ AFE NO. 824215
 MISCELLANEOUS ASSIGNMENT NO. _____

Description and Justification: **Drill & Complete new Indian Creek well # 824215**

Twp. / Dist. Malden County Kanawha State WV
 Est. Start Date _____ Est. Compl. Date _____ Est. T.D. 6950 Est. SIP 755
 Formations Tuscarora Lease (name-no./ Co.) Block 108
 Region SE Tax Partnership _____ Operator CHK
 Prospect / Field Indian creek Prepared by Schindler Prepared date 07/14/06
 Net Revenue Interest _____ % Working Interest _____ % Cost Interest _____ %

INTANGIBLES

			Dry hole	Completion	Total	Net
Contract Drilling	5350 ft. @	\$24 / ft.	\$128,400		\$128,400	
Contract Day Work						
Drilling	7 d. @	\$10,200 / d.	\$71,400	\$0	\$71,400	
Log/Perf/Comp/ Coring	2 d. @	\$10,200 / d.	\$20,400	\$0	\$20,400	
Other	d. @	\$0 / d.	\$0	\$0	\$0	
Company Labor & Consultant			\$10,000	\$5,000	\$15,000	
Road & Location (Inc. Reclamation & Damage)			\$30,000	\$10,000	\$40,000	
Trucking & Hauling			\$15,000	\$8,000	\$23,000	
Rental of Equipment incl. mud pump			\$12,000	\$4,000	\$16,000	
Service Rig	12 d. @	\$2,000 / d.	\$0	\$24,000	\$24,000	
Cementing Mt'l and Services			\$55,000	\$15,000	\$70,000	
Logging			\$17,500	\$5,000	\$22,500	
Perforating			\$0	\$6,000	\$6,000	
Stimulating			\$0	\$105,000	\$105,000	
Other Contract Service Towing, H2S, flowback, etc.			\$15,000	\$10,000	\$25,000	
Personal and Travel Expenses			\$1,000	\$500	\$1,500	
Company Equipment and General Tools			\$1,000	\$500	\$1,500	
Permits and Surveys			\$10,000	\$0	\$10,000	
Drilling Bits	30" & 6 1/4", 3 3/4"		\$25,000	\$1,000	\$26,000	
Mud and Chemicals incl. Fuel			\$20,000	\$6,000	\$26,000	
Other Expendables			\$12,500	\$6,000	\$18,500	
Land and Lease Costs / Abstracts			\$30,000	\$0	\$30,000	
Overheads / labor			\$3,000	\$2,000	\$5,000	
TOTAL INTANGIBLES			<u>\$477,200</u>	<u>\$208,000</u>	<u>\$685,200</u>	

TANGIBLES (remaining costs through completion)

C	Length Ft.	Size in.	Wt./ft.	Gr.	Price/Ft.	Dry Hole	Completion	Total	Net
A	40	32		LP	\$81.00	\$3,240	\$0	\$3,240	
S	275	20		LP	\$32.50	\$8,938	\$0	\$8,938	
I	750	13 3/8	37	LS	\$23.50	\$17,625	\$0	\$17,625	
N	2000	9 5/8	32.3	LS	\$16.11	\$32,220	\$0	\$32,220	
G	5450	7	23	J	\$15.38	\$83,821	\$0	\$83,821	
	7,050	4 1/2	13.5	L	\$14.20	\$0	\$100,110	\$100,110	
Tbg.	7,000	2 3/8	4.7	AB	\$4.25	\$0	\$29,750	\$29,750	
Wellhead assembly						\$12,000	\$25,000	\$37,000	
Surface Equip -GAS						\$0	\$8,000	\$8,000	
Surface Equip -OIL						\$0	\$0	\$0	
Downhole Equipment						\$3,000	\$3,000	\$6,000	
Non-Controllable Equipment						\$0	\$0	\$0	

TOTAL TANGIBLES \$160,844 \$165,860 \$326,704

TOTAL WELL COST \$638,044 \$373,860 \$1,011,904

Well Line Costs	1500' @ \$17.00	\$0	\$25,500	\$25,500
Meter Costs		\$0	\$10,000	\$10,000
Other Costs	Labor & equip. to get off loc. & tie in	\$0	\$10,000	\$10,000

TOTAL LINE & MEASUREMENT COST \$0 \$45,500 \$45,500

TOTAL PROJECT COST \$638,044 \$419,360 \$1,057,404

APPROVAL _____ DATE _____

APPROVAL _____ DATE _____

JOINT INTEREST APPROVAL

COMPANY NAME _____ APPROVAL _____ DATE _____
 Net Revenue Interest _____ % Working Interest _____ % Cost Interest _____ %

This AFE represents only the estimated costs, and shall not supercede the terms of the Operating Agreement or COPAS accounting practice.

Chesapeake Well No. 824215

Lease No. 1013424-000

CERTIFICATE OF CONSENT AND EASEMENT

This Certificate of Consent and Easement, made and entered into this 29th day of June, 2006, by and between DICKINSON PROPERTIES LIMITED PARTNERSHIP, By DICKINSON FUEL COMPANY, INC., a West Virginia corporation, General Partner, P.O. Box 311, Charleston, West Virginia 25321 (hereinafter "Grantor(s)"), and Chesapeake Appalachia, L.L.C., an Oklahoma limited liability company the surviving entity of the merger with Columbia Natural Resources, LLC (hereinafter "Chesapeake").

That in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Grantor(s), being sole owner/all the owners of the surface of that certain lot, tract or parcel of land located in Malden District, Kanawha County, State of West Virginia, shown on the Well Location Plat, dated June 21, 2006, attached hereto and made a part hereof, hereby consent and grant an easement, pursuant to West Virginia Code, Section 22C-9-7(B)(4) and Operating Rule 4.4 of the Rules and Regulations of the West Virginia Oil and Gas Conservation Commission, to Chesapeake, its successors or assigns, for the drilling and operation of a deep well for the production of oil or gas at the location shown on the attached Well Location Plat, with ingress and egress to and from the same.

This agreement may be executed in one or more counterparts, each of which shall be deemed original, and all of which together shall constitute one and the same instrument. If for any reason, any party named herein fails to execute this contract, it shall nevertheless, be binding upon the signing parties.

DECLARATION OF CONSIDERATION OF VALUE: Grantor(s) does (do) hereby declare that this document is exempt from excise tax on the privilege of transferring real estate for the following reason: The value of the property transferred by this document is less than One Hundred Dollars (\$100.00).

WITNESS the following signatures:

DICKINSON PROPERTIES LIMITED PARTNERSHIP
By DICKINSON FUEL COMPANY, INC., a West Virginia corporation, General Partner

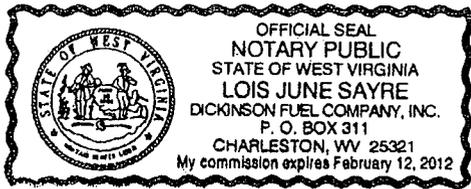
By: [Signature]
Its President

STATE OF WEST VIRGINIA

COUNTY OF KANAWHA

On this 29th day of June, 2006, before me,
Lois June Sayre a Notary Public, came
Nelle Ratrie Chilton

to me known (or to me satisfactorily proven) to be the individual(s) described in, and who executed the foregoing instrument and acknowledged that he/she/they executed the same for the purposes therein contained.



Lois June Sayre
Notary Public

My commission expires: February 12, 2012

STATE OF WEST VIRGINIA

COUNTY OF _____

On this _____ day of _____, 200____, before me,
_____ a Notary Public, came

to me known (or to me satisfactorily proven) to be the individual(s) described in, and who executed the foregoing instrument and acknowledged that he/she/they executed the same for the purposes therein contained.

Notary Public

My commission expires: _____

This instrument prepared by:
Chesapeake Appalachia, L.L.C.
P. O. Box 6070
Charleston, WV 25362-0070

**BEFORE THE OIL AND GAS CONSERVATION COMMISSION
OF THE STATE OF WEST VIRGINIA**

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE)
APPALACHIA, L. L. C. FOR AN ORDER FROM THE)
COMMISSION POOLING TRACTS AND INTERESTS OF)
OIL AND GAS OWNERS IN THE ABSENCE OF A VOLUNTARY)
AGREEMENT FOR THE DEVELOPMENT AND OPERATION)
OF UNIT BLOCK 108 IN THE TUSCARORA SANDSTONE)
POOL OF THE INDIAN CREEK FIELD, MALDEN DISTRICT,)
KANAWHA COUNTY, WEST VIRGINIA, PURSUANT)
TO WEST VIRGINIA CODE 22C-9-7(b), AS AMENDED, AND)
FOR AN ORDER GRANTING A WELL LOCATION SPACING)
EXCEPTION TO THE MINIMUM DISTANCE REQUIREMENTS)
APPLICABLE TO THE INDIAN CREEK FIELD, PURSUANT TO)
WEST VIRGINIA CODE 22C-9-7(a)(6), AS AMENDED.)

DOCKET NO. _____

CAUSE NO. _____

APPLICATION

Comes now the Applicant, Chesapeake Appalachia, L. L. C., a limited liability company, and states the following:

1. This Application is filed pursuant to West Virginia Code 22C-9-7(b), as amended, and West Virginia Code 22C-9-7(a)(6), as amended.
2. Applicant is an operator within the meaning of West Virginia Code 22C-9-2(4).
3. By Order entered on the 29th day of August, 1979, the Commission established jurisdiction over Applicant's deep well drilling program in the Indian Creek Field, and further established Special Field Rules for the Tuscarora Sandstone Pool of said Field situate in Kanawha County, West Virginia.
4. That said pool and Field have been identified by Exhibits filed in previous Hearings before the Commission and that the drilling units formed in said Field are comprised of six hundred forty (640) acres each.
5. Applicant has filed an application for a drilling permit with the West Virginia Department of Mines, Oil and Gas Division, for the drilling of its proposed Well No. 824215 in Unit Block 108 of the Indian Creek Field. The proposed location of said well is more particularly shown and identified on Applicant's Exhibit Nos. 1 and 2, attached hereto and made a part hereof.
6. To the best of Applicant's knowledge, no operator, other than the Applicant, desires to operate Unit Block No. 108. Further, there are no operators, other than Applicant, of permitted deep well locations within two (2) miles of the proposed location of Well No. 824215, as shown on Applicant's Exhibit No. 2 referenced above.
7. Applicant estimates that the dry hole and completion costs for Well No. 824215 and associated well line are \$638,044 and 419,360, respectively, as shown on Applicant's Exhibit No. 3, attached hereto and made a part hereof.
8. In compliance with West Virginia Code, 22C-9-7(b)(4), as amended, Applicant has obtained a Certificate of Consent and Easement Agreement from the surface owner of the tract of

land upon which Well No. 824215 is to be drilled, a copy of which is attached hereto and made a part hereof as Applicant's Exhibit No. 4.

9. Applicant has obtained Lease Agreements from over 90% of the oil and gas owners in Unit Block 108 of the Indian Creek Field. The owners of the oil and gas who have not entered into a lease or signed a voluntary unitization/modification agreement are shown on Applicant's Exhibit No. 5, attached hereto and made a part hereof.

10. Applicant has made reasonable efforts to locate the owners of the unleased tracts for the purpose of obtaining leases or voluntary Unitization Agreements. However, to date, these efforts have been unsuccessful.

11. Applicant has attempted to space Well No. 824215 at least 1500 feet from the nearest outside boundary of Unit Block 108 in order to comply with the spacing requirements of the August 29, 1979 Order. However, this is not possible due to surface conditions which would substantially add to the burden or hazard of drilling Well No. 824215. A spacing exception is necessary to obtain a suitable and safe drilling location for Well No. 824215.

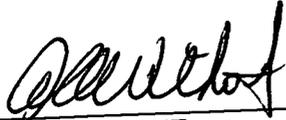
12. Applicant represents that unless an Order is entered by the Commission designating Applicant as operator of Unit Block No. 108 and pooling the interests and tracts of the owners of the oil and gas in place within this unit, and granting a well location spacing exception to the August 29, 1979 Order, the oil and gas within the Tuscarora Formation underlying the tracts within Unit Block No. 108 will not otherwise be produced and developed.

13. Based on the above, Applicant respectfully represents that the granting of the relief requested in this Application will:

- (a) Foster, encourage and promote development, production, utilization, and conservation of oil and gas resources;
- (b) Prohibit waste of oil and gas resources;
- (c) Encourage the maximum recovery of oil and gas in Unit Block No. 108;
- (d) Not interfere with the correlative rights of other operators insofar as their interest may be provided for in accordance with West Virginia Code, 22C-9-7(b) as amended; and
- (e) Not interfere with or alter development of the spacing pattern of the total area encompassed within the Special Field Rules.

WHEREFORE, Applicant respectfully requests that the Commission enter an Order (i) designating Applicant as operator of its proposed Well No. 824215 in Unit Block No. 108; (ii) granting an exception to the spacing requirements imposed by the August 29, 1979 Order to allow for the drilling of Well No. 824215 at the location designated and shown on Applicant's Exhibit No. 1 filed herewith; (iii) pooling the interests and tracts of the unleased owners of the oil and gas in place in the Tuscarora Formation in Unit Block No. 108 consistent with and pursuant to the provisions of West Virginia Code, 22C-9-7(b) as amended, and (iv) granting the Applicant such other relief, both general and special in nature, as to the Commission deems just and fair.

CHESAPEAKE APPALACHIA, L. L. C.,
A limited liability company
By Counsel



ANTHONY A. WILHOIT
COUNSEL FOR APPLICANT
Chesapeake Appalachia, L. L. C.
P. O. Box 6070
Charleston, West Virginia 25362-0070

L:\Tink\iPleadings\Application.824215IC.7.12.06.doc

TRACT 2 – 61.37 UNIT ACRES

NAME	INTEREST IN TRACT 2	UNLEASED UNIT ACREAGE	INTEREST IN UNIT
Unknown Heirs of Thomas H. Paul (address unknown)	92/200	28.23	4.41096%
Unknown Heirs of G. A. Bealor (address unknown)	12/200	3.68	.57503%
Unknown Heirs of Florence Bealor (address unknown)	31.34/200	9.62	1.50312%
Unknown Heirs of Quilla Bealor (address unknown)	31.33/200	9.62	1.50312%
Unknown Heirs of Helen Bealor (address unknown)	31.33/200	9.62	1.50312%
Unknown Heirs of Ellen Marie Paul Shipman (address unknown)	.33/200	.10	.01562%
Ruth Ann Paul Young (address unknown)	.33/200	.10	.01562%
Margaret M. Paul Crowl (address unknown)	.33/200	.10	.01562%
Walter R. Paul (address unknown)	.33/200	.10	.01562%
Thomas E. Paul (address unknown)	.34/200	.10	.01562%
Barbara J. Paul (address unknown)	.34/200	.10	.01562%
TOTAL	200/200	61.37	9.58907%

TRACT 3 – 33.66 UNIT ACRES

NAME	INTEREST IN TRACT 3	UNIT ACREAGE LEASED WITHOUT UNITIZATION/MODIFICATION AGREEMENT	INTEREST IN UNIT
Victor V. Stover (address unknown)	5/896=30/5376	.18783	.02934%
Dawn Kimberly Burris (address unknown)	5/1792=15/5376	.09391	.01467%
John W. Layton (address unknown)	1/672=8/5376	.05009	.00783%
Larae Casner (address unknown)	1/672=8/5376	.05009	.00783%
Nina Jean Harges (address unknown)	1/672=8/5376	.05009	.00783%
Unknown Heirs of Ernest M. Layton, Jr. and/or Loretta Layton (address unknown)	5/384=70/5376	.43828	.06848%
TOTAL	139/5376	.87029	.13598%

TRACT 2 – 61.37 UNIT ACRES

NAME	INTEREST IN TRACT 2	UNLEASED UNIT ACREAGE	INTEREST IN UNIT
Unknown Heirs of Thomas H. Paul (address unknown)	92/200	28.23	4.41096%
Unknown Heirs of G. A. Bealor (address unknown)	12/200	3.68	.57503%
Unknown Heirs of Florence Bealor (address unknown)	31.34/200	9.62	1.50312%
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Margaret M. Paul Crowl (address unknown)	.33/200	.10	.01562%
Walter R. Paul (address unknown)	.33/200	.10	.01562%
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Barbara J. Paul (address unknown)	.34/200	.10	.01562%
TOTAL	200/200	61.37	9.58907%

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Unknown Heirs of Ernest M. Layton, Jr. and/or Loretta Layton (address unknown)	5/384=70/5376	.43828	.06848%
TOTAL	139/5376	.87029	.13598%

1 BEFORE THE OIL AND GAS CONSERVATION COMMISSION
2 OF THE STATE OF WEST VIRGINIA

3 DOCKET NO. 171
4 CAUSE NO. 28
5

6
7 IN THE MATTER OF THE REQUEST BY CHESAPEAKE
8 APPALACHIA, LLC, FOR AN EXCEPTION TO THE
9 REQUIREMENT OF CAUSE 28, ORDER 1; AND AN
10 ORDER FROM THE COMMISSION POOLING TRACTS
11 AND INTERESTS OF OIL AND GAS OWNERS FOR THE
12 DEVELOPMENT AND OPERATION OF UNIT BLOCK #108
13 IN THE TUSCARORA SANDSTONE POOL OF THE INDIAN
14 CREEK FIELD, MALDEN DISTRICT, KANAWHA COUNTY,
15 WEST VIRGINIA

16 On the 16th day of August, 2006, beginning at
17 10:15 a.m., at the offices of the West Virginia
18 Department of Environmental Protection, 601 57th
19 Street, SE, Charleston, Kanawha County, West
20 Virginia, before James D. Nielsen, Court Reporter
21 and a Notary Public in and for the State of West
22 Virginia, a hearing was taken in the above-named
23 action pursuant to notice of the West Virginia
24 Department of Environmental Protection, Oil and
Gas Conservation Commission..

25 ACCURATE REPORTING SERVICE, INC.
26 526 SEVENTH STREET
27 HUNTINGTON, WEST VIRGINIA 25701

28 (304) 345-9891 * (304) 522-9637 * (606) 329-2154

29 APPEARANCES:

30 On Behalf of the West Virginia Department of
31 Environmental Protection, Oil and Gas
32 Conservation Commission:

33 Barry K. Lay: Commissioner
34 James Martin
35 Brett Loflin
36 Bob Radabugh
37 Tony Gum

38 On behalf of Chesapeake Appalachia, LLC:

39 ANTHONY A. WILHOIT, ESQ.
40 Wilhoit & Kaiser
41 300 Capitol Street
42 Suite 1121
43 P.O. Box 1389
44 Charleston, West Virginia 25325
45 (304) 346-5291

46 ALSO PRESENT:

47 Keith Moffatt
48 Rob Schindler
49 Bob Paolini
50 Jeffrey Cable

3 I N D E X

1		
2	EXAMINATION:	PAGE
3	KEITH MOFFATT	
4	By Mr. Wilhoit	6
5	ROBERT PAOLINI	
6	By Mr. Wilhoit	13
7	By Mr. Radabugh	16
8	By Mr. Lay	17
9	JEFFREY CABLE	
10	By Mr. Wilhoit	20
11	By Mr. Martin	22
12	ROBERT SCHINDLER	
13	By Mr. Wilhoit	24
14	Mr. Martin	27
15	By Mr. Lay	31
16		
17	EXHIBITS	
18	Exhibit No. 1	4
19	Exhibit No. 2	4
20	Exhibit No. 3	4
21	Exhibit No. 4	4

22
23
24

COPY

4 PROCEEDING

5 MR. LAY: Before the Oil and Gas

6 Conservation Commission of the State of West
7 Virginia, in the matter of the request by
8 Chesapeake Appalachia, LLC, for an exception to
9 the requirements of Cause 28, Order 1, and an
10 order from the Commission Pooling Tracts and
11 Interests of oil and gas owners for the
12 development of the operation of Unit Block
13 No. 108 in the Tuscarora Sandstone Pool of the
14 Indian Creek Field, Malden District, Kanawha
15 County, West Virginia, this is Docket No. 171,
16 Cause No. 28.

17 Let the record show that present are
18 members of the Commission, James Martin, Bob
19 Radabugh, Tony Gum and Barry Lay, and Brett
20 Loflin from staff.

21 (Exhibits 1-4 marked for identification.)

22 I would like to place on the record at this
23 time as Exhibit 1 of the Commission, the Notice
24 of Hearing along with the certified return
receipt. Exhibit 2, is a confirmation of the
Online Open State Government Act notice of this
hearing filed with the department.

1 Exhibit 3 is a copy of the legal
2 advertisement for the hearing. And Exhibit 4, a
3 copy of the request, dated July 18th, 2006, from
4 Anthony Wilhoit, which includes a copy of the
5 application for the proposed well, along with
6 exhibits.

7 At this time the Commission will take
8 appearances.

9 MR. WILHOIT: Mr. Chairman, members of
10 the Commission, my name is Tony Wilhoit. I'm an
11 attorney here on behalf of Chesapeake Appalachia.
12 And I have four witnesses to present evidence in
13 this hearing, Mr. Keith Moffatt, Mr. Robert A.
14 Paolini and Jeffrey Cable and Mr. Robert E.
15 Schindler. Those will be the witnesses I'd ask
16 to be sworn for testimony at this hearing.

17 MR. LAY: Will the reporter please swear
18 the witnesses.

19 Said witnesses, having been first duly sworn,
20 deposed as follows:

21 MR. LAY: You made proceed.

22 MR. WILHOIT: Thank you. I call
23 Mr. Keith Moffatt first.
24

EXAMINATION OF KEITH MOFFATT

1 BY MR. WILHOIT:

2 Q. Would you state your full name for the
3 record.

4 A. Sure. Keith Moffatt, M-O-F-F-A-T-T.

5 Q. And what is your occupation or
6 position?

7 A. I'm an in-house attorney for Chesapeake
8 Appalachia.

9 Q. All right, sir. And in connection with
10 your responsibilities as an in-house attorney
11 with Chesapeake are you familiar with this
12 application that is currently pending before this
13 board?

14 A. Yes, I am.

15 Q. And is Chesapeake Appalachia an operator
16 within the meaning of West Virginia Code 22C-9-2,
17 Paragraph 4?

18 A. Yes, it is.

19 Q. Are you asking the board then to
20 consider your request to pool certain unleased
21 interests into a unit and to order an exception
22 to the spacing requirements of the rule set up
23 for this field?
24

1 A. Yes, that's the request set forth in the
2 application.

3 Q. All right, sir. Are you familiar with
4 the field where you're asking for this order to
5 be entered, the Tuscarora -- the Indian Creek
6 Field?

7 A. Yes, it's the Indian Creek Field which
8 was established, I believe, in 1975 through a
9 special field order issued by the Oil and Gas
10 Conservation Commission establishing 640 acres
11 drilling unit.

12 Q. All right, sir. Were the spacing
13 requirements included within that special field
14 rule?

15 A. Yes. The special field order also
16 required that wells be located 1,500 feet from
17 the unit boundary line.

18 Q. All right, sir. Attached to your
19 application before this Commission is Exhibit
20 No. 1, would you explain to the board what that
21 exhibit depicts?

22 A. Exhibit No. 1 shows -- the outer dotted
23 line is the 640 acre drilling unit for Block 108,
24 and then inside that you have the inner red

1 dotted line which shows the window in which the
2 well is supposed to be located. That's the
3 window showing the boundary 1,500 feet from the
4 unit boundary. And then we've also depicted the
5 tracts which are located within Block 108, and
6 then we depicted a spot showing the proposed
7 location for the well we would like to drill,
8 Well No. 824215.

9 Q. All right, sir. Exhibit 2 to the
10 application, would you explain briefly what that
11 is? We'll establish it more so with another
12 witness, but...

13 A. Sure. Exhibit 2 shows deep wells which
14 are located within a two-mile radius from the
15 proposed well, 824215.

16 Q. Is it in compliance with the statute
17 regarding this exhibit to the application?

18 A. That's correct.

19 Q. Exhibit No. 3, what would that be?

20 A. Exhibit No. 3 is the AFE for the
21 proposed well, which was prepared by Rob
22 Schindler who will testify later this morning.

23 Q. Exhibit 4?

24 A. Exhibit 4 is the Certificate of Consent

1 and Easement signed by the surface owner at the
2 well site for the proposed well location.

3 Q. This is also in compliance with statutes
4 regarding the acquisition of the consent from the
5 surface owner?

6 A. That's correct.

7 Q. All right, sir. Exhibit No. 5, can you
8 explain to the board what this document is?

9 A. Exhibit No. 5 is a list of the owners we
10 would like to force pool at this hearing, and it
11 shows their interests in the 640 acre unit.

12 Q. Does the top chart show that
13 approximately 9.5 percent, 9.6 percent of the
14 unit is what you're asking the board to pool?

15 A. That's correct.

16 Q. And that all these people are unknown
17 and unlocatable?

18 A. That's correct. And we do have a
19 witness, Bob Paolini, who will speak to the
20 efforts made to locate these individuals.

21 Q. The bottom chart on Exhibit No. 5 sets
22 out certain individuals and certain interests,
23 and would you explain to the board what that
24 indicates or represents?

1 A. Tract 3.

2 Q. Yes.

3 A. That also shows a list of unleased
4 mineral owners that we're asking the Commission
5 to force pool, because just like with Tract 2 we
6 were unable to locate the individuals shown in
7 that chart.

8 Q. And they represent about 14 percent?

9 A. No, it's .13 percent. It's less than
10 one half percent. And then as part of our
11 application or request we would ask that the
12 order incorporate alternatives that these
13 individuals would be allowed to exercise to share
14 in the production from the proposed well. And
15 the statute contains two options, and we would
16 ask that those options be incorporated in the
17 order. And that if the individuals do not make
18 an election within ten days, I think is
19 customary, then they be deemed to have elected
20 the second option proposed in the forced pooling
21 statute.

22 Q. Now, again, with respect to this 33.66
23 acres at the bottom of Exhibit No. 5, these
24 tracts are actually under lease but they do not

1 have a unitization provision; is that what you're
2 asking for to modify?

3 A. That's correct.

4 Q. All right. Now, to the best of your
5 knowledge will the granting of this application
6 and the relief requested therein accomplish the
7 goals set out by the legislature for the
8 encouragement and promotion of the development
9 and production of oil and gas reserves and the
10 prevention of waste?

11 A. Yes, it will.

12 Q. Will it also encourage the maximum
13 recovery of oil and gas from Unit Block No. 108?

14 A. Yes, it will.

15 Q. Will it protect and prevail the rights
16 of the other operators or other interest owners
17 in the area?

18 A. Yes.

19 Q. All right, sir. And with respect to the
20 modification then, if the board grants the
21 modification, then this will not interfere with
22 or alter development of spacing pattern of the
23 total area encompassed within the special field
24 rules; is that correct?

1 A. That's correct.

2 Q. All right, sir.

3 A. But I do need to correct an answer.
4 With regard to Tract 3, Tract 3 is leased, the
5 lease does have a pooling clause. What lease
6 No. 3 may not cover would be CO2. The production
7 from this field, I believe, is about two-thirds
8 CO2 and one-third methane. And there has been an
9 issue raised in the past whether or not our
10 leases do in fact cover CO2.

11 And just to be safe we've asked that be --
12 these individuals be pooled into the unit so that
13 it is clear that their entire mineral interest,
14 oil and gas interest, is pooled into the unit.
15 And this Commission has in the past pooled these
16 individuals under the same circumstances into
17 other drilling units.

18 Q. So their leases do have pooling
19 provisions, they just need to be modified to
20 cover CO2?

21 A. Arguably, yes. There is an issue
22 whether or not the leases do cover CO2. We just
23 want to be --

24 Q. That's less than 1 percent?

1 A. -- 100 percent sure.

2 That's correct.

3 Q. And all the others do have provisions to
4 cover CO2?

5 A. That's correct.

6 Q. I want to make sure we're clear on it.

7 MR. WILHOIT: That's all the questions I
8 have of this witness.

9 MR. LAY: Questions from members of the
10 Commission?

11 MR. RADABUGH: Nothing right now.

12 MR. GUM: None for me.

13 MR. LAY: Brett?

14 MR. LOFLIN: No.

15 MR. LAY: Call your next witness.

16 MR. WILHOIT: Mr. Robert Paolini.

17 EXAMINATION OF ROBERT PAOLINI

18 BY MR. WILHOIT:

19 Q. Mr. Paolini, would you state your full
20 name for the record, please?

21 A. Robert A. Paolini.

22 Q. How are you employed, Mr. Paolini?

23 A. I'm a senior land man for Chesapeake
24 Appalachia.

1 Q. In that capacity are you familiar with
2 this application currently pending before the
3 board?

4 A. Yes, I am.

5 Q. In connection with Exhibit No. 5, these
6 unleased parties that the application requests be
7 pooled into this unit, have you made an attempt
8 to locate and contact these people?

9 A. Yes, I have.

10 Q. Would you explain to the board your --
11 were you successful in trying to contact these
12 people?

13 A. No, I wasn't.

14 Q. Could you explain to the board the
15 efforts you used to try and locate and contact
16 these people?

17 A. I researched courthouse records and the
18 assessor's records here in Kanawha County, the
19 old land books from the '40s and '50s when this
20 property was assessed. I made some phone calls,
21 calling information, getting names of similar --
22 similar surnames in the town in Pennsylvania
23 where most of these people were located back in
24 the 1940s. But I found no one that knew of them

1 or were any heirs of them. This property was
2 abstracted back in '82 and people at that time
3 made similar searches and were unable to locate
4 them, anyone.

5 Q. In your professional judgement have you
6 exercised due diligence to try to locate these
7 people?

8 A. Yes, I have.

9 Q. Have you exhausted all resources you
10 know how to look?

11 A. Yes, I have.

12 Q. Now, Exhibit No. 4, are you familiar
13 with that?

14 A. Oh, yes. The consent and easement, yes.

15 Q. Were you involved in obtaining that
16 requirement?

17 A. Yes, I did. I submitted this to
18 Dickinson Properties.

19 Q. Is their signature on there?

20 A. Yes.

21 Q. And you're familiar with Exhibit No. 5,
22 and as Mr. Moffatt has already explained, the
23 Tract 2, these are the interests that are unknown
24 and we're asking to be pooled into the unit, and

1 as far as Tract 3 is concerned these are the
2 interests that are leased but you're asking for a
3 modification of their lease agreement to cover
4 CO2?

5 A. Yes.

6 Q. With respect to these people, they're
7 all unknown and they'll be escrowed anyway in any
8 form or fashion?

9 A. Yes, they've been escrowed. We force
10 pooled them back in '84 because they could not be
11 located.

12 Q. All right, sir.

13 A. And I did make Internet searches trying
14 to locate anyone now.

15 MR. WILHOIT: That's all I have of this
16 witness.

17 MR. LAY: Questions from members of the
18 Commission?

19 BY MR. RADABUGH:

20 Q. I guess when this lease was originally
21 obtained, were these people or their ancestors
22 before them actually leased or -- is there a
23 legal issue other than with the Commission about
24 the lease?

1 A. I do not believe so, no. The lease is a
2 valid lease with 100 percent interest, full
3 interest.

4 MR. RADABUGH: That's what I'm getting
5 at.

6 MR. LAY: I have one question.

7 BY MR. LAY:

8 Q. It appears that Tract No. 2 you're
9 talking about the entire mineral estate, who's
10 paying taxes on that property?

11 A. No one now. It disappeared from the
12 land book. Within my search of the old land book
13 it was on until the early '50s, and then the
14 mineral assessment disappeared. The property was
15 sold in the late '40s, I believe, by the coal
16 company to DickSPORT Coal Company, and they
17 reserved the minerals. And then the Perrysburg
18 Coal Company, who was the owner until they sold
19 the service to DickSPORT, reserved the oil and
20 gas. And then they went bankrupt in
21 Pennsylvania. And the company, Perrysburg Coal
22 Company, was dissolved, the corporation was
23 dissolved. And shortly thereafter, a few years
24 later, on the land books the assessment

1 disappeared.

2 MR. MOFFATT: If I may, I believe Bob is
3 correct. These individuals are not being
4 assessed with the mineral estate, but I believe
5 the mineral estate is incorrectly being assessed
6 to the surface owner, but the surface owner is
7 not claiming ownership of the oil and gas. So
8 taxes are being paid by the surface owner even
9 though -- incorrectly -- but even though the
10 surface owner is not claiming the oil and gas
11 estate. Dickinson Property is being assessed
12 with fee title.

13 MR. LAY: Does Dickinson own both the
14 surface on Tract 2 and 3? Looking at the map, I
15 guess this is the proper -- my question is
16 concerning the location itself.

17 MR. MOFFATT: Tract 2 and 4.

18 MR. LAY: 2 and 4, okay.

19 MR. MOFFATT: Right, they own the
20 surface on Tract 2 and on Tract 4.

21 MR. LAY: All right. There has been no
22 attempt by Chesapeake to clear up that assessment
23 in order to acquire title on the property because
24 of the estate?

1 MR. MOFFATT: Right. As far as I know
2 we've made no effort to try to acquire title to
3 that tract.

4 MR. LAY: Is this something that you
5 would go forward with after the well is drilled?

6 MR. MOFFATT: I guess I'm not clear on
7 what exactly you're asking for. We have oil and
8 gas ownership owned by some unknown individuals.
9 You have the surface owned by Dickinson
10 Properties. And right now in terms of payment of
11 taxes, Dickinson Property is paying 100 percent
12 of the taxes for that property.

13 I don't think there's a title dispute
14 regarding ownership of the various estates in the
15 tract, there just may be an incorrect tax
16 assessment.

17 MR. LAY: Okay.

18 MR. MARTIN: Is Dickinson paying mineral
19 taxes on Tract 4? Have they been assessed for
20 the minerals on Tract 4 also?

21 MR. MOFFATT: I believe so.

22 MR. MARTIN: Is that also an incorrect
23 assessment or do they own the minerals on the
24 Tract 4?

1 MR. MOFFATT: Do you have that title
2 information, Bob?

3 MR. PAOLINI: I don't have the title
4 with me, but I want to say yes, they do own it.
5 But without having the title in front of me I
6 can't say for sure.

7 MR. LAY: Any other questions? Brett,
8 do you have any?

9 MR. LOFLIN: No, I have no questions.

10 MR. LAY: Call your next witness.

11 MR. WILHOIT: The next witness we call
12 would be Mr. Jeffrey P. Cable.

13 EXAMINATION OF JEFFREY P. CABLE

14 BY MR. WILHOIT:

15 Q. Mr. Cable, would you state your full
16 name please for the record.

17 A. Jeffrey P. Cable.

18 Q. Where are you employed, sir?

19 A. Chesapeake Energy, I'm the senior
20 reservoir engineer.

21 Q. Are you familiar with the application
22 currently pending before this board?

23 A. Yes, I am.

24 Q. Would you explain to the board what the

1 objective formation total depth would be?
 2 A. 6,950 feet.
 3 Q. Is it going to be a commercial well in
 4 your opinion?
 5 A. Yes, it will.
 6 Q. What are the potential reserves?
 7 A. 1.8 billion cubic feet.
 8 Q. Are you familiar with Exhibit 2?
 9 A. Yes.
 10 Q. Does that accurately reflect the well
 11 status as far as wells within two miles of the
 12 proposed location?
 13 A. That's correct. Those are all
 14 Chesapeake Energy wells, they're all Tuscarora
 15 wells as well.
 16 Q. Are you familiar with the well costs or
 17 the operating costs to be associated with this
 18 well?
 19 A. Yes.
 20 Q. Would you explain to the board what
 21 those would be?
 22 A. They would be \$876.45 a month, and that
 23 would include direct labor and vehicles,
 24 materials and overhead costs.

1 Q. Is that based on actual costs or
 2 estimated costs?
 3 A. It's based on actual costs that we incur
 4 in that field.
 5 Q. Of course actual cost on this particular
 6 well would be determined at a later date; is that
 7 correct?
 8 A. Yeah.
 9 Q. So you're basing on history in the
 10 field?
 11 A. Based on history.
 12 MR. WILHOIT: That's all the questions I
 13 have of this witness.
 14 MR. LAY: Questions from the Commission?
 15 MR. GUM: Not me.
 16 MR. RADABUGH: No.
 17 BY MR. MARTIN:
 18 Q. I want to make sure I understand that
 19 wells in the two-mile radius -- can you tell me
 20 how many we're showing here and who operates
 21 them?
 22 A. There's five wells, and they're all
 23 operated by Chesapeake.
 24 Q. What zone are these in?

1 A. They're all Tuscarora.
 2 MR. MARTIN: Thank you.
 3 MR. LAY: I was looking at the AFE, it
 4 seems to be rather expensive for a 6,900 foot
 5 well, can you explain why?
 6 MR. WILHOIT: I have another witness who
 7 is going to -- he actually prepared the AFE and
 8 we'll let them explain that if you prefer.
 9 MR. LAY: That's fine.
 10 MR. MARTIN: Is that other witness going
 11 to testify regarding the location?
 12 MR. WILHOIT: Yes.
 13 MR. LOFLIN: I have one question. This
 14 may be a question better for someone else, but
 15 within the Unit Block 108, other than the
 16 unleased tract, are there any other operating
 17 interests within that tract, any other operators
 18 that would be willing or want to be the operators
 19 in that unit?
 20 MR. PAOLINI: No.
 21 MR. MOFFATT: No. And to clarify, or to
 22 answer a question that Mr. Martin posed, I do
 23 have information regarding the ownership of the
 24 oil and gas under Tract 4. It is owned by

1 Dickinson. They own the oil and gas under Tracts
 2 4, 5 and 6.
 3 MR. MARTIN: Thank you.
 4 MR. LAY: Call your next witness.
 5 MR. WILHOIT: Mr. Robert Schindler.
 6 EXAMINATION OF ROBERT SCHINDLER
 7 BY MR. WILHOIT:
 8 Q. Would you state your full name, please,
 9 for the record?
 10 A. Robert E. Schindler.
 11 Q. How are you employed, Mr. Schindler?
 12 A. I'm a senior engineer for Chesapeake
 13 Appalachia, LLC.
 14 Q. In connection with your employment are
 15 you familiar with this application?
 16 A. Yes, sir.
 17 Q. Are you familiar with the AFE or the
 18 Authority For Expenditure that's attached thereto
 19 as Exhibit 3?
 20 A. Yes, I am.
 21 Q. Would you explain to the board then what
 22 the total cost of this well will be, dry hole?
 23 A. The total dry hole cost is \$638,044.
 24 Q. What will be the total cost of

1 completion?

2 A. 1,057,404.

3 Q. All right, sir. Did you prepare this
4 AFE?

5 A. Yes, I did.

6 Q. Are you prepared to answer any questions
7 the board may have concerning the AFE?

8 A. Yes, I am.

9 Q. Now, with respect to the exception from
10 the spacing requirements that are established in
11 this field, are you familiar with Exhibit No. 1
12 that depicts the proposed location?

13 A. Yes, I am.

14 Q. Is that location approximately 1,449
15 feet from the boundary line of the unit?

16 A. Yes.

17 Q. Would you explain to the board why it is
18 not possible to locate the well within the inside
19 window where the location should be according to
20 the special rules?

21 A. Yes. The reason we're asking for the
22 exception -- of course in this case 51 feet isn't
23 a whole lot, it doesn't seem like very much, but
24 we have searched that area out there thoroughly,

1 you can see there is some roads going through
2 there, cemetery, there is houses, these wells
3 normally encounter H2S, so we like to be up on
4 the ridgetops or as near the ridgetops as we can,
5 and if you moved over that 51 feet in this
6 particular spot you've moved over the edge of the
7 hill. H2S, being heavy, would go down, and for
8 safety reasons we would like to be granted the
9 exception to the 1,500 foot from the outer unit
10 boundary.

11 Q. Are you familiar with what's designated
12 as Tract No. 2 on the plat?

13 A. Yes, I am.

14 Q. Is that the tract where the unleased
15 interests are?

16 A. Yes.

17 Q. And those are the interests we're asking
18 the board to pool into this unit; is that
19 correct?

20 A. That's correct.

21 Q. And in connection with those people,
22 since they are unleased, then we have no consent
23 from those people; is that correct?

24 A. Correct.

1 Q. And the statute does require not only
2 surface owner consent but mineral owner consent?

3 A. That's correct.

4 Q. And so we couldn't place a well on that
5 tract?

6 A. Anywhere on Tract No. 2, which takes up
7 a considerable portion of that inner square.

8 Q. All right, sir. And so this is the
9 location that you find would be the best suited
10 to place this well at this particular location to
11 drain and to effectively produce minerals under
12 Unit Tract 108?

13 A. That's correct.

14 MR. WILHOIT: That's all I have.

15 MR. LAY: Questions from members of the
16 Commission?

17 MR. MARTIN: I have one, Barry.

18 BY MR. MARTIN:

19 Q. Approximately how many acres does the
20 window encompass within that 640 acre unit? The
21 drilling window that's depicted on here, how many
22 acres is that approximately? Do you know
23 offhand?

24 A. How many acres is it?

1 Q. Yes.

2 A. I don't know how many acres that would
3 be. I could calculate it, but...

4 MR. CABLE: How long is that square?
5 What's one side of the square, do you know?
6 2,500 feet?

7 MR. LAY: One mile less 1,500 feet off
8 each side, so one mile less 3,000 feet, 2,820
9 feet.

10 MR. CABLE: Square that.

11 Q. (By Mr. Martin) The reason I ask that
12 question, I'm just curious within that X-acreage,
13 whatever it might turn out to be, and I
14 understand the point you made about -- I'm not
15 sure -- well, I heard what you said regarding
16 Tract 2, I'm not sure I understand that. But
17 what you're saying is that there is essentially
18 no place within that acreage, whatever it is --
19 did anybody calculate that -- that you can put
20 this location?

21 A. That's correct.

22 MR. LAY: Approximately a quarter-acre
23 section, so probably 160 acres roughly.

24 Q. So within the 160 acres there's no place

1 that this will work for you? I understand what
2 you're saying, Tract 2 is the big problem -- a
3 big part of that problem.

4 A. You know, we're obligated, because of
5 State law, to stay off of that tract.

6 MR. MARTIN: I guess I have that
7 question, and maybe we need to talk about that.
8 I'm a little confused as to what --

9 MR. LAY: You can't develop a tract
10 that's force pooled. You can't drill on a tract
11 that's force pooled.

12 MR. SCHINDLER: You can't drill on the
13 tract that you're force pooling.

14 MR. WILHOIT: How many square feet in an
15 acre?

16 MR. CABLE: Forty-three-five-sixty.

17 MR. WILHOIT: 182.56 acres.

18 MR. MARTIN: So probably half of that is
19 Tract 2. I guess Tract 2 --

20 MR. SCHINDLER: Approximately half of
21 that acreage, whatever it is, is already
22 eliminated.

23 MR. MARTIN: Okay.

24 MR. WILHOIT: The statute is kind of

1 weird, it requires you to have surface owner
2 consent, it's mandatory, to get a permit to
3 drill. But in the preceding page the next Code
4 section over it says that you cannot drill a well
5 on a tract that's not -- if you don't have
6 consent from the mineral owners. So you have to
7 have mineral owner consent as well as surface
8 owner consent. But in this case when the mineral
9 owners are unlocatable and you can't find them,
10 here we go. The same problem we had with CBM.

11 MR. LAY: There is a consent -- it's not
12 really a consent, it's just a prevention --

13 MR. WILHOIT: You can't drill.

14 MR. LAY: -- without having them leased
15 you can't drill on a forced pool tract, basically
16 is what the intent was.

17 MR. MOFFATT: The statute reads, Each
18 such pooling order shall be upon terms and
19 conditions which are just and reasonable, and in
20 no event shall drilling be initiated on the tract
21 of an unleased owner without the owner's written
22 consent.

23 MR. WILHOIT: If you can't find them,
24 you can't get it, so you can't drill on it. So

1 that's why Tract 2 is out, as far as the
2 location.

3 MR. LAY: Marty, do you have any other
4 questions? I have one.

5 BY MR. LAY:

6 Q. The topography is such and this is a
7 developed area, culture prevents you from moving
8 the location within the window? You don't have
9 any other possible location?

10 A. Yes. The terrain out there is quite
11 steep, and when you get off that side, like I
12 said, that would allow -- the primary reason is
13 safety, not wanting to get off the edge of those
14 hills where it's not -- you know, it's a straight
15 shot down to the houses. And yes, the topography
16 is quite steep out there. So when you move over
17 and start over that edge then something heavy
18 like H2S would, you know, going down that hill.

19 Q. Okay. Then I guess I want to go back to
20 my question, unless somebody else has a question
21 about the plat or the exception.

22 Can you basically explain to me why the AFE
23 is so expensive?

24 A. Yes, I can. This is what we call a CO2

1 well, as someone stated earlier the field is
2 approximately 66 percent CO2, 33 percent methane
3 and 1 percent other gases, some of which are
4 sulfur compounds. But what that means in terms
5 of this AFE is, one, there is some higher price
6 tubulars in the well then there normally is, and
7 the well head is stainless steel, the well heads
8 in West Virginia typically cost 500 bucks, these
9 are in the realm of a hundred times that
10 expensive for that type of equipment.

11 And then also, being a deeper well, when
12 it's stimulated you can't use regular frac sands
13 above the crust gradient of sand. So you have to
14 buy a higher priced proppant to do that, you have
15 to have your rental equipment out there to
16 monitor that H2S, just those sort of things are
17 what drive the AFE cost up on this particular
18 well.

19 Q. And you're encountering H2S in the
20 Hildeburgh or somewhere besides the Hildeburgh?

21 A. The primary source of the H2S is that
22 Salina section, it seems to move around in
23 there. And then there are sulfur compounds in
24 the Tuscarora itself also.

1 Q. So the gas you've encountered in the
2 Tuscarora has been sour as well?

3 A. It would be termed as sweet because of
4 the low concentration of H2S, but it does have
5 sulfur compounds in it.

6 Q. Your casing you're running -- are you
7 setting pipe -- your 7-inch, where are you
8 setting that?

9 A. The 7-inch is set through the Oriskany,
10 and the reason for that is we stop -- you know,
11 typically you could drill that well on the TD
12 without setting that 7-inch, which means the
13 7-inch could be clear back up the hole through
14 the bree or something, but we need to be able to
15 circulate that hole. If we do indeed encounter
16 the H2S that we anticipate, then we have to drill
17 on the fluids, and if you leave the Devonian
18 shale section open it will break down and not
19 circulate.

20 Q. You're running a J Grade 7-inch through
21 an H2S so it will be exposed to an H2S zone?

22 A. That's correct. As it turns out, the
23 lower the grade of the steel, I think you'll see
24 that's 23 pounds J, which is heavier pipe than

1 you normally run, but the lower the grade of the
2 steel the less susceptible it is to H2S.

3 Q. Okay. But I see quite a few -- or what
4 appears to be a significant increase in drilling
5 cost over a typical well, \$24 per foot for top
6 hole, is that a reasonable drilling contract?

7 A. That is the price -- we have a rig under
8 contract to drill this particular well, and with
9 the fuel adjustment added in that's what we
10 anticipate the price to actually be.

11 MR. LAY: Okay. Questions from --
12 Brett, do you have any questions?

13 MR. LOFLIN: No, I don't have a question
14 at this time.

15 MR. LAY: Mr. Wilhoit, you can call your
16 next witness.

17 MR. WILHOIT: I just want to ask
18 Mr. Cable, would you repeat what the potential
19 reserves were? I didn't get to write that down.

20 MR. CABLE: 1.8 billion cubic feet.

21 MR. WILHOIT: That's all the witnesses'
22 testimony evidence that we would submit at this
23 time.

24 MR. LAY: Anything from members of the

1 Commission? Staff?

2 MR. LOFLIN: Yes, I have another
3 question, probably directed for Keith. Just to
4 be clear, what you're going to be requesting on
5 the forced pooling, I understand Tract 2, from
6 your testimony earlier, what you're going to
7 request, what you'd like to see reflected in the
8 order is a statement that these owners have a
9 certain amount of time to elect which option they
10 would like to participate under, under
11 22-C-9-7(b)4, basically, or 5, and probably what
12 that is going to say, and I think what we've done
13 in the past, if they do not make an election
14 within those ten days then they would be deemed
15 to have picked Option B, which would be
16 participate on a carried basis; is that correct?

17 MR. MOFFATT: That's correct.

18 MR. LOFLIN: I'm fine with that. I'm a
19 little confused still maybe on the Tract 3, and
20 what you're asking for. You do have a lease, you
21 have pooling, but you're asking for some language
22 in the order that would modify the lease to
23 ensure that the CO2 portion of the gas was
24 included in the pooling order? I guess I'm still

1 just a little confused on how we're going to word
2 that and what their options are going to be.

3 MR. MOFFATT: Well, I'm not sure we're
4 asking that the lease be modified. Some folks
5 have argued that CO2 is not covered by the lease,
6 if it's not covered then we're asking that the
7 production right for the CO2 be force pooled into
8 the unit, so if it's force pooled then, with
9 regard to CO2 production, you fall under the
10 statutory options in making your election. And
11 that's how we've treated it in the past with
12 regard to the individuals of Tract 3.

13 MR. LOFLIN: Okay.

14 MR. MOFFATT: So you treat it as
15 unleased, they have the election to follow Option
16 One or Option Two; if they don't make an election
17 we go to Option Two, which is B, and then we just
18 escrow the proceeds attributable to that
19 interest.

20 MR. LAY: In that case would you escrow
21 only the revenue from the CO2 stream?

22 MR. MOFFATT: We'll escrow everything.
23 We have an eighth covered by -- the oil and gas
24 is covered by -- the methane is covered by the

1 lease, so we'd escrow an eighth. With regard to
2 the CO2 then we would follow the Option B.

3 MR. LAY: You lost me, because in tract
4 3 you have a lease which allows you to market the
5 natural gas --

6 MR. MOFFATT: That's correct.

7 MR. LAY: -- cash flow stream. So you
8 would pay those individuals -- well, in this case
9 they're unknown, but they would receive their
10 proportionate share of -- well, I guess it's all
11 escrowed, because they're unknown.

12 MR. MOFFATT: That's right.

13 MR. LAY: That answers my question then
14 I guess. Okay, any other questions. If that's
15 all we'll go off the record.

16 (Discussion was held off the record.)

17 MR. LAY: Back on the record. Do we
18 have a motion?

19 MR. RADABUGH: I make a motion to grant
20 the request for pooling the location exception.

21 MR. GUM: I'll second that motion.

22 MR. LAY: It's been moved and seconded.
23 Any further discussion? All those in favor of
24 the motion, aye.

1 THE COMMISSION: Aye.

2 MR. LAY: Opposed, nay.

3 The motion carries.

4 The Commission grants the relief sought
5 under the application. We have a couple caveats
6 to that. First of all, that the costs
7 attributable to the interests that are force
8 pooled in the unknowns, those cost are to be at
9 Chesapeake's actual cost.

10 The second caveat is, once the final
11 accounting has been completed on the well, that a
12 copy of that accounting be submitted to the
13 Commission staff for review. And we'd also
14 request that counsel for Chesapeake resubmit a
15 draft order to staff for review.

16 MR. WILHOIT: All right, sir.

17 MR. LAY: Anything further from the
18 members of the Commission?

19 MR. GUM: No, sir.

20 MR. RADABUGH: No.

21 MR. LAY: Staff?

22 MR. LOFLIN: No.

23 MR. RADABUGH: I might just say next
24 time with your stuff you might send a topographic

1 sheet map, kind of more visual of what you're
2 requesting, as far as for your spacing purposes
3 and things so we can kind of see the terrain and
4 things a little bit better.

5 MR. LAY: In one of your exhibits at
6 that point, if you're requesting an exemption,
7 because the topography should be -- at least a
8 map depicting the topography of the area.

9 MR. WILHOIT: Okay. All right, sir.

10 MR. LAY: Anything further from the
11 Commission and staff?

12 MR. RADABUGH: No.

13 MR. LAY: Anything from Chesapeake?

14 MR. WILHOIT: That's all we have. Thank
15 you for your time.

16 MR. LAY: We'll close the record then.

17 (This hearing concluded at 11:10 a.m.)
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24

1 STATE OF WEST VIRGINIA,

2 COUNTY OF KANAWHA, to-wit:

3

4 I, James D. Nielsen, Court Reporter and a
5 notary public within and for the county and state
6 aforesaid, duly commissioned and qualified, do
7 hereby certify that the foregoing hearing of the
8 West Virginia Department of Environmental
9 Protection Oil and Gas Conservation Commission
10 was duly taken by and before me at the time and
11 place specified in the caption hereof.

12 I do further certify that the said hearing
13 was correctly taken by me in stenotype notes,
14 that the same were accurately written out in full
15 and reduced to typewriting; and that said
16 deposition is a true record of the hearing.

17 I do further certify that I am neither
18 attorney or counsel for, not related to or
19 employed by, any of the parties to the action in
20 which this hearing is taken, and further that I
21 am not a relative or employee of any attorney or
22 counsel employed by the parties hereto or
23 financially interested in this action.

24 My commission expires May 15, 2016.

Given under my hand this 8th day of
September, 2006.

James D. Nielsen
Court Reporter/Notary Public

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