

VIRGINIA:

060003165

BEFORE THE VIRGINIA GAS AND OIL BOARD

APPLICANT: **APPALACHIAN ENERGY, INC.**

DIVISION OF GAS
AND OIL DOCKET
NO. 93-0216-0325-08

RELIEF SOUGHT: **MODIFICATION OF THE OAKWOOD I
COAL BED GAS FIELD RULES ORDER
OCGB 3-90, AS AMENDED, TO ALLOW
MORE THAN ONE COALBED GAS WELL
TO BE DRILLED IN THE UNITS
IDENTIFIED ON EXHIBIT A HERETO**

LEGAL DESCRIPTION: **DRILLING Units UNITS G33 TO G34; H33 TO H34;
I34; LOCATED IN BUCHANAN COUNTY, VIRGINIA; SEE ANNEXED EXHIBIT
A AND STATE PLANE COORDINATE DESCRIPTION AT PARAGRAPH 7.h.
WITHIN**

**REPORT OF THE BOARD
FINDINGS AND ORDER**

1. Hearing Date and Place: This matter came on for hearing before the Virginia Gas and Oil Board (hereinafter "Board") at 9:00 a.m. on **July 18, 2006** at the Southwest Virginia Higher Education Center on the campus of Virginia Highlands Community College, Abingdon, Virginia.

2. Appearances: **Jim Kaiser**, Esquire, of the firm of Wilhoit and Kaiser, appeared for the Applicant; and Sharon M.B. Pigeon, Assistant Attorney General was present to advise the Board.

3. Jurisdiction and Notice: Pursuant to sections 45.1-361.1 *et seq.*, Virginia Code, as amended, the Board finds that it has jurisdiction over the subject matter. Based upon the evidence presented by the Applicant, the Board also finds that the Applicant has (1) exercised due diligence in conducting a meaningful search of reasonably available sources to determine the identity and whereabouts of each gas and oil owner, coal owner, or mineral owner, or in the case of conflicting claims to the ownership of the coalbed methane gas, each person identified by Applicant as a potential owner of the coalbed methane gas underlying the area described at paragraph 7.h below and in **Exhibit A** attached hereto; and (2) has given notice to all parties so identified (hereinafter

sometimes "person(s)" whether referring to individuals, corporations, partnerships, associations, companies, businesses, trusts, joint ventures or other legal entities) and entitled by §§ 45.1-361.19 and 45.1-361.20, Virginia Code, as amended, to notice of this Application, and (3) that the persons listed in the Notice of Hearing are the persons so identified by the Applicant. Further, the Board has caused notice of this hearing to be published as required by § 45.1-361.19.B., Virginia Code, as amended. Whereupon, the Board hereby finds that the notices given satisfy all statutory requirements, Board rule requirements and the minimum standards of State due process.

4. Amendments and Dismissals: None.

5. Relief Requested: (1) Modification of the Oakwood I Coalbed Gas Field Rules to allow more than one coalbed methane gas well to be drilled within each of the Oakwood Field Drilling Units identified above and in **Exhibit A** attached hereto; and (2) for an administrative order providing that additional well permits may be issued in the Oakwood I Field after this Application is filed and while it is pending.

6. Relief Granted: Available data and the evidence adduced at the hearing support Applicant's position that the production from the pool underlying the Oakwood I Coalbed Gas Field Drilling Units in question would be enhanced and benefit from in-field drilling; accordingly,

a. With regard to the Drilling Units described above and in **Exhibit A** hereto, OGCB 3-90 is hereby amended to allow the Board's Designated Unit Operator in Drilling Units pooled by Board Order and the Well Operator/Permittee in voluntary Drilling Units to drill a total of two wells, said total to include any previously permitted wells, within the units affected by the Application and this Order;

b. In the event that a well work permit for an additional/second coalbed methane gas well(s) is submitted after the entry of this order and the proposed well location is within the drilling window(s) of an Oakwood I Coalbed Methane Gas Field Drilling Unit affected by this Order, the production therefrom shall be solely attributed to and allocated to the Oakwood I Drilling Unit within which the additional/second well(s) is located. Such additional/second well(s) will be subject to any existing pooling orders. No further Board appearance or action will be required before the Director may exercise his discretion to grant or deny a well work permit application for a second/additional well(s) if located as provided in this paragraph 6.b.;

c. In the event a second well is proposed that is to be located outside the drilling window of any Oakwood I Coalbed Gas Field Unit affected by this order and a permit application is submitted to the Division of Gas and Oil seeking such location exception, the Inspector shall assess the permit as follows:

(i) If an 80-acre square with the proposed well at its center lies entirely within Oakwood I Drilling Units which are voluntary in nature and are not subject to existing pooling orders, the Inspector may grant or deny the location exception on a case-by-case basis according to standard procedures and provisions of the Oakwood I Field Order which allow wells to be drilled outside drilling windows; or

(ii) If an 80-acre square with the proposed well at its center lies entirely or partially within any Oakwood I Drilling Unit(s) which is subject to existing pooling orders, the Inspector shall refer the permit application to the Board for its recommendations concerning correlative rights considerations, modification of pooling orders, and escrow provisions. Alternatively, the Unit Operator may present a pooling proposal directly to the Board prior to filing a permit application. No permit under this paragraph ii. shall be issued until the Board has acted on the matter.

7. Special Findings:

- a. Applicant's proposed field rule modification is not an unreasonable or arbitrary exercise of the owner's right to explore for or produce gas;
- b. The Applicant's proposal would not unreasonably interfere with the present or future mining of coal or other minerals;
- c. The acreage to be embraced in the Drilling Units affected by and/or created by this Modification Order shall be as set forth above and in **Exhibit A** attached hereto.
- d. The formations subject to this Modification Order are described in OGCB 3-90, as amended.
- e. The boundaries of the 80-acre Drilling Units are the same as heretofore established by OGCB 3-90, as amended.
- f. Unit Operator's production simulations indicate that drilling of an additional well in each Unit could facilitate the recovery of an additional 250,000 MCF of gas per Unit within 10 years of drilling.
- g. The acreage subject to this Modification Order is depicted in **Exhibit A** hereto and is more specifically described as follows:

Beginning at a point, Virginia State Plane NAD 27 coordinate of North: 355075.66 East: 1004943.56; thence S 87°51'55" E 3732.40 feet to a point; thence S 02° 05' 09" W 5615.13 feet to a

point; thence N 87° 51' 31" W 1866.74 feet to a point; thence N 02 ° 05' 17" E 1871.52; feet to a point; thence N 87° 51' 39" W 1866.11 feet to a point; thence N 02 ° 05' 30" E 3743.24 feet to the point of beginning, containing 401 +/- acres.

h. Having considered the evidence presented, the Board found no reason to establish any allowable production rates for the wells contemplated by this Modification Order;

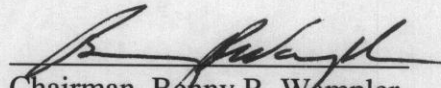
i. Except as herein specifically modified, the proposed Drilling Units more fully described above and in **Exhibit A** attached hereto shall be developed and produced in compliance with OGCB 3-90, as amended.

j. This Modification Order shall be effective as of the date of the hearing, to-wit: **July 18, 2006.**

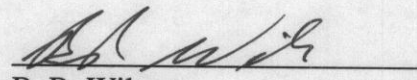
8. Conclusion: The relief granted hereby will assist in enhancing production from existing wells, will assist in more efficiently recovering coalbed methane gas from the area in question, will prevent waste, and will continue to protect the correlative rights of all owners and claimants. Therefore, the relief and all terms and provisions set forth above be and are hereby granted and IT IS SO ORDERED.

9. Effective Date: July 18, 2006.

DONE AND EXECUTED this 19th day of September, 2006, by a majority of the Virginia Gas and Oil Board.


Chairman, Benny R. Wampler

DONE AND PERFORMED this 19th day of September, 2006, by Order of this Board.


B. R. Wilson
Principal Executive to the Staff
Virginia Gas and Oil Board

STATE OF VIRGINIA)
COUNTY OF WISE)

Washington
Acknowledged on this 19th day of September, 2006, personally before me a notary public in and for the Commonwealth of Virginia, appeared Benny R. Wampler, being duly sworn did depose and say that he is Chairman of the Virginia Gas and Oil Board, that executed the same and was authorized to do so.

Susan G. Garrett
Susan G. Garrett
Notary Public

My commission expires 9/30/09

STATE OF VIRGINIA)
COUNTY OF WASHINGTON)

Acknowledged on this 19th day of September, 2006, personally before me a notary public in and for the Commonwealth of Virginia, appeared B. R. Wilson, being duly sworn did depose and say that he is Principal Executive to the Staff of the Virginia Gas and Oil Board, that executed the same and was authorized to do so.

Diane J. Davis
Diane J. Davis
Notary Public

My commission expires 9/30/09

VIRGINIA: In the Clerk's Office of the Circuit Court of Buchanan County. The foregoing instrument was this day presented in the office aforesaid and is, together with the certificate of acknowledgment annexed, admitted to record this 26th day of September, 2006 at 2:18 P. M. The tax imposed by §587.1-802 of the Code has been paid in the amount of \$. Deed Book No. and Page No. . Returned to: DMME.
TESTE: James M. Bevins, Jr., Clerk
TESTE: Jessie S. Miller, Deputy Clerk

ORDERED BY: WKL
JAMES M. BEVINS, JR., CLERK
SP. SUP. AT 03:18PM
BUCCHANAN COUNTY, VA
THE CLERK'S OFFICE ON
MENT #090003192