

**STATE OF NEW YORK
DEPARTMENT OF ENVIRONMENTAL CONSERVATION**

In the matter of the necessity for and the order of field wide well spacing rules pursuant to Environmental Conservation Law (“ECL”) §23-0501 and to order the integration of interests in spacing units pursuant to ECL §23-0901 for the

STIPULATION

MUCK FARM FIELD
Steuben County, New York

WHEREAS:

A. On the request of the New York State Department of Environmental Conservation (“DEC” or “Department”) for a public hearing (the “Hearing”) to be scheduled to determine the necessity for and the order of field wide spacing rules and to order the integration of interests in Spacing Units for the Muck Farm Field, Steuben County, New York.

B. The Department and Columbia Natural Resources, Inc. (“Columbia”), and their respective attorneys, have conferred and agreed upon certain terms to establish well spacing in the Muck Farm Field, Steuben County, that will result in the efficient and economical development of the gas pool as a whole and protect correlative rights in accordance with the policy of New York State as articulated in ECL §23-0301 upon the issuance by the Commissioner of a final order (“the Order”), containing the terms and conditions set forth below.

IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES HERETO THAT:

I. **DEFINITIONS.** That the definitions contained herein are adopted for purposes of the Stipulation.

A. “Muck Farm Field” means that area in Steuben County, New York within the bold black outline on the map attached hereto as Exhibit “A” which illustrates those surface lands overlying the natural gas bearing pool within the Ordovician Trenton/Black River carbonates, and as extended or modified by additional wells drilled and completed pursuant to this Stipulation or the Order.

B. “Operator” means a person, natural or artificial, engaged in the business of drilling, producing and/or operating wells for oil and/or natural gas.

C. “Spacing Unit” means that area allocated to a well within the Muck Farm Field for the purpose of drilling for and/or producing oil and natural gas.

D. “Infill Well” means an additional well drilled within an approved or existing Spacing Unit.

E. "Extension Well" means any well completed in the Trenton/Black River carbonates drilled within 5 miles of a well in the Muck Farm Field and determined to be a part of the Muck Farm Field by reservoir testing results and geologic analysis.

II. EXISTING WELLS

A. There are 5 existing wells in the Muck Farm Field which are capable of producing oil and/or natural gas. The proposed Spacing Units for the existing wells are shown on Exhibits "B1-B5", attached hereto and made a part hereof. The existing wells are identified as follows:

<u>WELL NAME</u>	<u>CNR WELL NUMBER</u>	<u>API NUMBER</u>
Faber No. 1	623285	31-101-22745
Snyder No. 1	623293	31-101-22755
McAllister No. 1	623292	31-101-22748
Smith No. 1	623291	31-101-22747
Wise No. 1 (not completed)	623520-A	31-101-22765-01

B. The individual tracts of land included within the 5 proposed Spacing Units are shown on the respective individual maps at Exhibits "B1-B5". The Order will provide for final Spacing Unit configuration and integration of all tracts and interests into each Spacing Unit for purposes of fair and equitable disbursement of production revenue in accordance with the provisions of Paragraph VII herein. Production shall be allocated to each parcel within each Spacing Unit based on the surface acreage of the parcel as a percentage of the total acreage of each Spacing Unit. Royalties shall be paid based on the oil and gas lease agreements in effect at the time so integrated. Those parcels not under lease within each Spacing Unit shall be included on a non-surface entry basis, and owners of such parcels shall receive royalty payments equal to the lowest royalty fraction, but not less than one-eighth, contained in any oil and gas lease within the Spacing Unit.

C. Production may proceed from an existing well prior to the Order and royalty payments shall be made by Columbia to all owners leased to Columbia within the proposed Spacing Unit for each existing well where Columbia controls 75% or more of the unit acreage as shown in Exhibits "B1-B5." Royalty payments attributable to leased parcels shall be based on the oil and gas lease agreements in effect. Royalty payments attributable to unleased parcels shall be held by Columbia in an interest-bearing account until a final Order is issued by the Commissioner.

D. Effective as of the date of the Order, all operations, including the operation of the wells, on any portion of a Spacing Unit established by the Order shall be deemed for all purposes the conduct of such operations upon each separately owned tract in the Spacing Unit by the owner or several owners thereof. That portion of the production allocated to each tract included in the Spacing Unit established by Order shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.

E. Columbia will be the Operator of each of the proposed Spacing Units for the 5 existing wells identified in Paragraph II.A. herein for the production of oil and/or natural gas.

III. STIPULATION WELLS

That during the pendency of the Hearing and subsequent thereto until a final Order is issued, the Department shall issue well drilling permits, upon submission of applications and proper documentation by Columbia, subject to the following conditions:

A. No drilling permit application for a proposed extension well shall be considered by the Department unless

1. Columbia has the right to develop all the oil and gas in a 660 foot radius of

the wellsite, whether by fee ownership, lease, farmout or voluntary participation arrangement;

2. Columbia must possess the voluntary contractual right to conduct drilling operations on the tract where the surface location of the proposed well is to be located; and

3. The wellsite must be at least 5280 feet from an existing well in the Muck Farm Field unless otherwise justified to the satisfaction of the Department by reasonable geologic, engineering or surface considerations.

B. That such permits for a proposed extension well naming Columbia as Operator shall allow the drilling, completion and testing of the well.

C. Prior to production from a proposed extension well, Columbia shall submit the following:

1. A map at a scale of 1" = 400' depicting the proposed Spacing Unit for the well showing Columbia's control of the oil and gas interests within the proposed Spacing Unit, whether by fee ownership, lease, farmout or voluntary participation arrangement with another Operator;

2. A tabular representation of tax parcel number, owner, and fractional acreage contribution to the proposed Spacing Unit, together with a summary of all tracts not controlled by Columbia;

3. An affidavit stating that each owner of unleased oil and gas interests within the proposed Spacing Unit has been advised as follows: (1) the owner's interest is encompassed by a proposed Spacing Unit; and (2) the owner has the option to voluntarily enter into a lease and, if he/she declines, compulsory integration may occur;

4. An affidavit that each Operator of public record owning fee or leasehold interests to oil and gas within the proposed Spacing Unit has been advised as follows: (1) the Operator's interest is encompassed by a proposed Spacing Unit; and (2) the Operator has the option to enter into a voluntary participation arrangement and if he/she declines compulsory integration may occur; and

5. Engineering and geologic data and analysis in the immediate vicinity of the proposed well which could reasonably be used to determine the appropriate size and shape of the proposed Spacing Unit. The following requirements shall be satisfied in determining the appropriate Spacing Unit:

(a) The Spacing Unit shall not be less than 320 acres or more than 640 acres in size unless otherwise justified to the satisfaction of the Department by reasonable geologic and engineering evidence;

(b) Each well will be located as nearly as practical to the center of the Spacing Unit; recognizing, however, that satisfying other criteria may result in the well not being in the center of the Spacing Unit;

(c) The Spacing Unit will abut existing Spacing Units, unless reasonable geologic and engineering evidence exists to the satisfaction of the Department to indicate the contrary; and

(d) Reservoir testing results and geological analysis to support the position that the well is part of the Muck Farm Field.

D. Upon approval of the Spacing Unit by the Department, production may proceed from an extension well and royalty payments shall be made to all owners leased to Columbia within the proposed Spacing Unit from each extension well where Columbia controls 75% or more of the unit acreage. Royalty payments attributable to unleased parcels shall be held by Columbia in an interest-bearing account until a final Order is issued by the Commissioner.

E. No drilling application for an infill well shall be considered by the Department unless the following requirements have been satisfied:

1. Columbia shall submit well testing results and geologic analysis to support that the drilling of the infill well is justified in order to capture unrecoverable reserves and/or accelerate the recovery of reserves as efficiently as possible within the existing approved Spacing Unit;

2. Columbia has the right to develop the oil and gas in a 660 foot radius of the wellsite proposed, whether by fee ownership, lease, farm-out or voluntary participation arrangement;

3. Columbia must possess the voluntary contractual right to conduct drilling operations on the tract where the surface location of the proposed infill well is to be located; and

4. The infill well is at least 660 feet from all existing unit lines and 1320 feet from any other oil and gas well in the same pool.

F. That such permits for an infill well naming Columbia as Operator shall allow the drilling, completion and testing of the well.

G. Production may proceed from an infill well and royalty payments shall be made to all owners leased to Columbia within the proposed Spacing Unit from each stipulation well where Columbia controls 75% or more of the unit acreage. Royalty payments attributable to unleased parcels shall be held by Columbia in an interest-bearing account until a final Order is issued by the Commissioner.

H. For all Stipulation wells, the Order will provide for final Spacing Unit configuration and integration of all tracts and interests into each Spacing Unit for purposes of fair and equitable disbursement of production revenue in accordance with the provisions of Paragraph VII herein. Production shall be allocated to each parcel within each Spacing Unit based on the surface acreage of the parcel as a percentage of the total acreage of each Spacing Unit. Royalties shall be paid based on the oil and gas lease agreements in effect at the time so integrated. Those parcels not under lease within each Spacing Unit shall be included on a non-surface entry basis and owners of such parcels shall receive royalty payments equal to the lowest royalty fraction, but not less than one eighth, contained in any oil and gas lease within the Spacing Unit.

IV. PERMIT APPLICATION PROCEDURES FOR FUTURE WELLS

From and after the date of a final Order, for all wells drilled in the Muck Farm Field, the Department's permitting procedure will be in accordance with the following criteria:

A. No drilling permit application for a proposed extension well shall be considered by the Department unless

1. Applicant has the right to develop all the oil and gas in a 660 foot radius of the wellsite, whether by fee ownership, lease, farmout or voluntary participation arrangement;

2. Applicant must possess the voluntary contractual right to conduct drilling operations on the tract where the surface location of the proposed well is to be located; and

3. The wellsite must be at least 5280 feet from an existing well in the Muck Farm Field unless otherwise justified to the satisfaction of the Department by reasonable geologic, engineering or surface considerations.

B. That such permits for a proposed extension well naming Applicant as Operator shall allow the drilling, completion and testing of the well.

C. Prior to production from a proposed extension well, Applicant shall submit the following:

1. A map at a scale of 1" = 400' depicting the proposed Spacing Unit for the well showing Applicant's control of the oil and gas interests within the proposed Spacing Unit, whether by fee ownership, lease, farmout or voluntary participation agreement with another Operator;

2. Engineering and geologic data and analysis in the immediate vicinity of the proposed well which could reasonably be used to determine the appropriate size and shape of the proposed Spacing Unit. The following requirements shall be satisfied in determining the appropriate Spacing Unit:

(a) The Spacing Unit shall not be less than 320 acres or more than 640 acres in size unless otherwise justified to the satisfaction of the Department by reasonable geologic and engineering evidence;

(b) Each well will be located as nearly as practical to the center of the Spacing Unit; recognizing, however, that satisfying other criteria may result in the well not being in the center of the Spacing Unit;

(c) The Spacing Unit will abut existing Spacing Units, unless reasonable geologic and engineering evidence exists to the satisfaction of the Department to indicate the contrary; and

(d) Reservoir testing results and geological analysis to support the position that the well is part of the Muck Farm Field.

D. The Department, acting through the Director, Bureau of Oil and Gas Regulation in the Division of Mineral Resources, will review the proposed Spacing Unit in terms of satisfying the policy provisions of ECL 23-0301 and will respond to the Applicant in writing within 30 days of receipt of the items required under Paragraph IV.C. of its approval of the proposed Spacing Unit or approval of the proposed Spacing Unit as modified by the Department, along with an explanation of any changes made. In the event the Department does not have all the required information in which to approve or modify the proposed Spacing Unit, the Department will so notify Applicant within the said 30 day period. In the event the Department does not respond in writing to the Applicant within the 30 day time period, the proposed Spacing Unit shall be deemed approved.

In the event the proposed Spacing Unit is modified or denied, the decision notification will state that the Applicant has the right to a public hearing. The Applicant may, within 30 days of the date of the mailing of the notification, request a hearing which the Department shall commence within 45 days of receiving the request. Failure by the Applicant to timely submit a request for hearing shall result in the Department's actions becoming effective on the date specified in the notification.

E. If Applicant has the right to develop all the oil and gas within the Department approved Spacing Unit, then production may proceed and royalty payments shall be made.

F. If Applicant does not have the right to develop all the oil and gas acreage within the Department approved Spacing Unit, production may proceed and all royalty payments shall be held by Applicant in an interest-bearing account until a compulsory integration order is issued by the Department pursuant to Paragraph VII. In addition, the following procedures apply:

1. Applicant shall provide a tabular representation of tax parcel number, owner, and fractional acreage contribution to the approved Spacing Unit, together with a summary of all tracts not controlled by the Applicant; and

2. The Applicant shall notify by certified mail the Operators and unleased owners of the uncontrolled acreage within the Spacing Unit as approved by the Department and shall provide copies of the certified mail return receipts to the Department. This notice shall include a copy of the Order and a map depicting the Spacing Unit and will also avail each unleased owner the further opportunity to lease their oil and gas interests and will give each Operator the further opportunity to either participate in the drilling of the proposed well or assign or farm-out their interests. It shall also provide notice that any owner of unleased mineral interests within the Spacing Unit who does not

voluntarily lease their mineral rights or any Operator owning fee or leasehold interests in the Spacing Unit who does not voluntarily enter into an agreement to either participate in the drilling of the proposed well or assign or farm-out their interests will be integrated into the Spacing Unit by order of the Department unless they contact the Department within ninety (90) days of the notice providing substantive and significant comments explaining the basis of any objection or opposition to compulsory integration and identify the specific grounds for such objection.

3. The Department shall take action after the foregoing notice period as follows:

(a) Where there are substantive and significant issues relating to any determinations the Department is required to make pursuant to ECL §23-0901, Department will file a Hearing Request with the Office of Hearings and Mediation Services.

(b) Where there are no substantive and significant issues, then the Department will issue an appropriate Order establishing the Spacing Unit and, if required, all uncontrolled acreage will be compulsory integrated by the Department in a manner consistent with the provisions of Paragraph VII herein and the provisions of ECL §23-0901(3). Upon issuance of an Order, Applicant shall distribute all escrowed royalty payments and accrued interest to the appropriate parties.

G. No drilling application for an infill well shall be considered by the Department unless the following requirements have been satisfied:

1. The Applicant shall submit well testing results and geologic analysis to support that the drilling of the infill well is justified in order to capture unrecoverable reserves and/or accelerate the recovery of reserves as efficiently as possible within the existing Spacing Unit;

2. The Applicant has the right to develop all the oil and gas in a 660 foot radius of the wellsite proposed, whether by fee ownership, lease, farm-out or voluntary participation arrangement;

3. The Applicant must possess the voluntary contractual right to conduct drilling operations on the tract where the surface location of the proposed infill well is to be located; and

4. The infill well is at least 660 feet from all existing unit lines and 1320 feet from any other oil and gas well in the same pool.

H. Permits for an infill well naming the Applicant as Operator shall allow the drilling, completion, testing and production of the well.

V. ISSUANCE OF WELL DRILLING PERMITS

Drilling permits issued pursuant to this Stipulation or an Order will include testing and production conditions as follows:

A. After completion and initial stimulation of the productive interval, the Applicant shall conduct a reservoir/production testing program to determine reservoir parameters, well productivity, and absolute open flow capacity of each well. Within 30 days of completing the testing program, the Applicant shall submit a report of testing results to the Department including the following:

(1) Initial stabilized bottom hole shut-in pressure; and

(2) Deliverability testing results and evaluation of all pressure drawdown and/or build-up testing, if conducted.

B. A minimum notice of 24 hours to the Department is required prior to the initiation of a production test. A Department representative may elect to witness any or all stages of the production test.

VI. The Department agrees not to disclose any information relative to the Muck Farm Field for which an exemption is claimed or which could be held as exempt from disclosure under the Public Officers Law until such time as a determination has been made otherwise pursuant to the regulations of the Department or the Public Officers Law.

VII. COMPULSORY INTEGRATION AND UNITIZATION

The Department, if satisfied that no facts are in dispute and that compulsory integration is necessary to satisfy the policy provisions of ECL §23-0301, will issue a compulsory integration order signed by the Director, Division of Mineral Resources. The compulsory integration order shall, at a minimum, include the following:

A. A provision designating the location of the existing or proposed well and the boundaries of the Spacing Unit within which the well will be or has been drilled.

B. A description of each separately owned tract or part thereof integrated by the Order.

C. A provision which allocates the production from the well to each separately owned tract in Spacing Unit.

D. A provision designating the Spacing Unit Operator.

E. A provision which shall specify the basis upon which each Operator will share all reasonable costs and expenses of drilling and producing as specified in subdivision three of ECL §23-0901.

F. A provision specifying that those parcels not under lease within the Spacing Unit shall be compulsory integrated on a non-surface entry basis and owners of such parcels shall receive royalty payments equal to the lowest royalty fraction, but no less than one-eighth, contained in any oil and gas lease within the Spacing Unit.

G. All operations including, but not limited to, the commencement, drilling, or operation of a well upon any portion of the unit so integrated shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in the Spacing Unit by the owner or several owners thereof.

H. That portion of the production allocated to each tract included in the integrated unit shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.

VIII. No Spacing Unit established by order of the Department may be modified without the written consent of all owners and Operators therein, unless the same shall be accomplished by procedures of the same formality accorded by the procedures under which the instant proceeding was commenced and conducted, and any and all applicable procedures under Environmental Conservation Law and regulations adopted thereto.

IX. Written communications required by the Stipulation shall be transmitted by United States Postal Service, private courier service, telecopier or hand delivered as follows:

A. Communication from Columbia, subsequent Applicants, and other interested persons to the Department shall be made to:

Mr. Bradley J. Field
Director, Bureau of Oil and Gas Regulation
New York State Department of Environmental Conservation
Division of Mineral Resources
50 Wolf Road, Room 290
Albany, New York 12233-6500
Phone: (518) 457-3682 Fax: (518) 457-9298

B. Communications to be made from the Department to Columbia shall be made to:

Mr. Lee Robinson
Columbia Natural Resources, Inc.
900 Pennsylvania Avenue
P. O. Box 6070
Charleston, West Virginia 25362
Phone: (304) 353-5085 Fax: (304) 353-5231

X. On the basis of all of the foregoing, and in order to provide for the orderly and uniform development of the Muck Farm Field, to assist in preventing or to prevent the waste of natural gas and/or oil, and to protect correlative rights of all persons, the Administrative Law Judge is hereby requested to accept this Stipulation and to recommend that an Order be issued incorporating the provisions as set forth herein.

XI. The parties hereto explicitly acknowledge the right of appeal of each and every separate determination made by the Department pursuant to this Stipulation and the Order either administratively or judicially under the Environmental Conservation Law or under the Civil Practice Law and Rules, Article 78, at the option of the appellant.

New York State Department of
Environmental Conservation
50 Wolf Road
Albany, NY 12233-1500

By: _____
Arlene J. Lotters
Program Counsel

Columbia Natural Resources, Inc.
900 Pennsylvania Avenue
Charleston, WV 25302

By: _____
Mary Sue Schulberg
Attorney

Dated: May 18, 1999