

**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

Bradley Brook Field
Madison 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 Bradley Brook Field, Madison County, New York;

B. The Department and Nornew, Inc. (“Nornew” or “Company”) have conferred and agreed upon certain terms to establish well spacing in the Bradley Brook Field, Madison 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.

C. Attached to this Stipulation are the following Exhibits prepared by the Company for incorporation into the final Order in support of the proposed terms and conditions:

1. Exhibit “A1” - Map of Bradley Brook Field which shows existing wells and the spacing units proposed to be established by the final Order.
2. Exhibit “A2” - Map of Bradley Brook Field which depicts an outline of the geologic feature in the vicinity of the proposed units, based on the Company’s interpretation of geologic and engineering data.
3. Exhibits “B1” - “B15” - Individual unit maps and ownership tabulations for proposed units for the existing wells in Bradley Brook field.
4. Exhibit “C” - Signed and dated Company report on Bradley Brook Field.

5. Exhibit "D" - Map of Bradley Brook Field which shows the location of seismic coverage used by the Company to define the geologic feature in the vicinity of the proposed units.
6. Exhibit "E" - Future well testing procedures proposed for Bradley Brook Field.

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

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

A. "Bradley Brook Field" and/or "Field" means that area in Madison County, New York within the grid pattern of spacing units in bold outline on the map attached hereto as Exhibit "A1" which illustrates those surface lands overlying the natural gas bearing pool within the Oneida and Oswego formations, and as extended or modified by additional wells drilled and completed pursuant to this Stipulation or the Order, and as modified, if necessary, within 90 days of the effective date of the Order to reflect changes in property ownerships and descriptions.

B. "Spacing Unit" means that area allocated to a well within the Field for the purpose of drilling for and/or producing oil and natural gas.

C. "Unit Well" means the first well drilled within a proposed Spacing Unit shown on the map attached hereto as Exhibit "A1."

D. "Infill Well" means an additional well drilled within an approved Spacing Unit.

E. "Extension Well" means any well completed in the Oneida or Oswego formations drilled outside a proposed or approved Spacing Unit but within two and one half miles of a well in the Field and determined to be a part of the Field by reservoir testing results and geologic analysis.

II. EXISTING WELLS

A. The Order will establish Spacing Units for the fourteen existing wells in the Field which are producing natural gas. The proposed Spacing Units for these wells are shown on Exhibits "A1" and "B1" - "B15" attached hereto and made a part hereof. The existing wells are identified as follows:

<u>WELL NAME & NUMBER</u>	<u>API NUMBER</u>
Barringer #1	31-053-21698-00
Corbin #1	31-053-22926-00
Crouch #1	31-053-22923-00
Crouch #2	31-053-22922-00
Crouch #3	31-053-22925-00
Hillage #1	31-053-21729-00
Keefe/Spillman #1	31-053-22921-00
Lodor #1	31-053-22803-00
Warren #1	31-053-21700-00
Mensche #1	31-053-23049-00
SJGS #1	31-053-23048-00
Whitney #1	31-053-23050-00
Swenson-Manning #1	31-053-23052-00
Symonds/Joseph #1	31-053-23060-00

One proposed well, the Warren #2, will be included in the Field.

B. The individual tracts of land included within the proposed Spacing Units for the existing wells are shown on the individual maps at Exhibit "B1" - "B15". 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. The Order will also provide 90 days after its effective date for updated Exhibits "A1" and "B1" - "B15" which reflect changes in property ownerships and descriptions to be prepared and made a part thereof, if necessary. Production shall be allocated to each tract within each Spacing Unit based on the acreage of the tract as a percentage of the total acreage of the Spacing Unit. Royalties shall be paid based on the oil and gas lease agreements in effect at the time so integrated. Those tracts not under lease within the Spacing Unit shall be included on a non-surface entry basis and owners of such tracts 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. Effective as of the date of the Order, all operations, including the operation of the well, on any portion of the 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 Units established by Order shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.

D. The Company shall be the Operator of the proposed Spacing Units for the existing wells identified in Paragraph II.A. herein for the production of oil and/or natural gas from the Field.

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 the Company, subject to the following conditions:

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

1. Nornew controls at least 75 percent of the oil and gas interests within the proposed Spacing Unit, whether by fee ownership, lease, farmout or voluntary participation arrangement;

2. The Company possesses 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 well is at least 1,800 feet from an existing well in the Field unless otherwise justified to the satisfaction of the Department by reasonable geologic, engineering or surface considerations.

B. In addition to the information required upon application for a drilling permit from the Department, the following additional information will be required for the application to be deemed complete:

1. A map at a scale of 1" = 400' depicting the proposed Spacing Unit for the well showing the Company'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, surface owner with mailing address and fractional acreage contribution to the proposed Spacing Unit, together with a summary of all tracts not controlled by the Company;

3. An affidavit stating that, each oil and gas interest not controlled by the Company within the proposed Spacing Unit has been advised in writing by certified mail that (1) the interest is encompassed in a proposed Spacing Unit; and (2) the interest owner may voluntarily enter into a lease; and (3) if the interest owner declines to lease then compulsory integration may occur, pursuant to ECL §23-0901(3); and (4) if compulsory integration is necessary, then the compulsory integration order will specify the basis upon which, if applicable, any compulsorily integrated owner will share all reasonable costs and expenses of drilling, pursuant to ECL §23-0901(3); and (5) if compulsory integration is necessary, then the compulsory integration order will specify the basis upon which, if applicable, any compulsorily integrated owner will receive production or a royalty attributable to its acreage in the unit; and (6) for extension wells only, the status of the hearing and the procedure for submitting any substantive and significant comments explaining the basis of any objection or opposition to compulsory integration and identifying the specific grounds for such objection.

4. 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 60 acres or more than 160 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.

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

D. For all production from the Oneida and Oswego formations, 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 tract within each Spacing Unit based on the acreage of the tract 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. The Order will apply to:

1. Each Spacing Unit shown on Exhibit "A1" and

2. Each extension unit approved pursuant to paragraph F of this Section which is completed for production during the pendency of the hearing.

E. Production may proceed from a unit well when the Company provides the Department with an affidavit stating that all royalty payments attributable to leased and unleased tracts shall be held by the Company in an interest-bearing account until a final Order is issued by the Commissioner. The name of the financial institution and account number will be included in the affidavit.

F. For extension wells permitted during the pendency of the hearing, the approval procedures set forth in Paragraph IV.C. of this stipulation shall apply. If completed for production during the pendency of the hearing, production may proceed from an extension well when the Department has approved the unit and the Company provides the Department with an affidavit stating that all royalty payments attributable to leased and unleased tracts shall be held by the Company in an interest-bearing account until a final Order is issued by the Commissioner. The name of the financial institution and account number will be included in the affidavit.

G. For extension wells permitted during the pendency of the hearing which are completed for production after a final Order is issued, then the procedures in IV.F. also apply.

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

1. The Company shall submit well testing results and geologic analysis to support that the drilling of the infill well at the proposed location 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, and that operation of the infill well at the proposed location will not drain gas reserves from outside the existing approved Spacing Unit;

2. The Company 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

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

J. Production may proceed from an infill well when the Company provides the Department with an affidavit stating that all royalty payments attributable to leased and unleased tracts shall be held by the Company in an interest-bearing account until a final Order is issued by the Commissioner. The name of the financial institution and account number will be included in the affidavit.

IV. PERMIT APPLICATION PROCEDURES FOR FUTURE WELLS

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

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

1. The Applicant controls at least 75 percent of the oil and gas interests within the proposed Spacing Unit, whether by fee ownership, lease, farmout or voluntary participation arrangement;

2. The Applicant possesses 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 well is at least 1,800 feet from an existing well in the Field unless otherwise justified to the satisfaction of the Department by reasonable geologic, engineering or surface considerations.

B. In addition to the information required upon application for a drilling permit from the Department, the following additional information will be required for the application to be deemed complete:

1. A map at a scale of 1" = 400' depicting the proposed Spacing Unit for the well showing the Applicant'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, surface owner with mailing address and fractional acreage contribution to the proposed Spacing Unit, together with a summary of all tracts not controlled by the Applicant;

3. Copies of certified mail return receipts showing that each oil and gas interest not controlled by the Applicant within the proposed Spacing Unit has been advised in writing by certified mail that (1) the interest is encompassed in a proposed Spacing Unit; and (2) the interest owner may voluntarily enter into a lease or otherwise integrate its interests with the Applicant's; and (3) if the interest owner declines to lease or otherwise integrate its interest with the Applicant's then compulsory integration may occur, pursuant to ECL §23-0901(3); and (4) if compulsory integration is necessary, then the compulsory integration order will specify the basis upon which, if applicable, any compulsorily integrated owner will share all reasonable costs and expenses of drilling, pursuant to ECL §23-0901(3); and (5) if compulsory integration is necessary, then the compulsory integration order will specify the basis upon which, if applicable, any compulsorily integrated owner will receive production or a royalty attributable to its acreage in the unit. This notice shall include a copy of the Order and a map depicting the proposed Spacing Unit. It shall also provide notice that any owners of uncontrolled oil and gas interests within the Spacing Unit who do not lease or otherwise voluntarily integrate their interests with the Applicant's 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.

4. 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 60 acres or more than 160 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.

C. 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.B. 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 with which to approve or modify the proposed Spacing Unit, the Department will so notify the 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.

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

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 when the Applicant provides the Department with an affidavit stating that all royalty payments attributable to leased and unleased tracts shall be held by the Company 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. 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 staff 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 at the proposed location 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, and that operation of the infill well at the proposed location will not drain gas reserves from outside the existing approved Spacing Unit; and

2. The Applicant is Operator of the unit or extension well in the existing Spacing Unit pursuant to Paragraph IID, IIIC, or IVD herein;

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

4. 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.

H. That such 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 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 the well testing procedure described in Exhibit "E." Within 30 days after the completion of the reservoir/production test, the Applicant shall submit to the Department a report which includes the following:

- (1) Geologic and gas sample analysis, including a determination of whether the well is part of the Field and thereby subject to this Stipulation or the final Order, or a new field or pool discovery.
- (2) Calculated initial reservoir pressure.
- (3) Explanation and justification of proposed unit size.
- (4) A unit map at a scale of 1" = 400' depicting the proposed production unit for the well showing Applicant's control of the oil and gas interests within the proposed production unit, and a listing of all mineral rights owners, by name and tract, and their percentage of acreage within the unit.

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

C. The Applicant must notify the Department if abnormal pressure communication is detected with another well(s) based on the results of the well testing procedure described in Exhibit "E." In this event, the Department may require that interference testing be performed, complete with appropriate analysis, to confirm the possible condition.

VI. The Department agrees not to disclose any information relative to the 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 tracts not under lease within the Spacing Unit shall be compulsory integrated on a non-surface entry basis and owners of such tracts 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.

I. A provision that upon issuance of a compulsory integration order, the Operator shall file a copy of such order, with the County Clerk in the county where the Field is located, against all tracts in the Spacing Unit. The Operator shall submit proof of such filing to the Department's Division of Mineral Resources by three months after the date of the compulsory integration order.

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 the Company, subsequent Applicants, and other interested persons to the Department shall be made to:

Mr. John K. Dahl, Director
Bureau of Oil & Gas Regulation
Division of Mineral Resources
New York State Department of Environmental Conservation
625 Broadway, 3rd Floor
Albany, New York 12233-6500
Phone: (518) 402-8056 Fax: (518) 402-8060

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

Mr. Stephen D. Keyes, General Manager
Nornew, Inc.
19 Ivy Street
Jamestown, NY 14701
Phone: (716) 665-5101 Fax: (716) 483-3758

X. On the basis of all of the foregoing, and in order to provide for the orderly and uniform development of the Bradley Brook 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. Upon issuance of an Order establishing Spacing Units in the Bradley Brook Field, the Company shall file a copy of such Order, including this stipulation and attached exhibits with the County Clerk in the county where the Field is located, against all tracts in the Field. The Company shall submit proof of such filing to the Department's Division of Mineral Resources by three months after the date of the Order.

XII. 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.

XIII. This Stipulation constitutes the entire agreement and understanding between the parties hereto with respect to the subject matter hereof between Nornew and the Department. No terms, conditions, understanding or agreement to modify or vary the terms of this Stipulation shall be binding unless approved in writing by the Department.

XIV. This Stipulation shall apply to, and be binding upon, Nornew and its subsidiaries, successors and assigns.

XV. The undersigned are duly authorized representatives of Nornew and the Department respectively and have authority to execute this Stipulation and bind the respective parties hereto.

XVI. The effective date of this Stipulation shall be the date it is signed by the Department.

New York State Department of
Environmental Conservation
625 Broadway, 14th Floor
Albany, NY 12233-1500

By: Signed
Arlene J. Lotters
Program Counsel

Nornew, Inc.
19 Ivy Street
Jamestown, NY 14701

By: Signed
John H. Heyer, Esq.
Attorney for Nornew, Inc.

Dated: April 15, 2004