

NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION

In the Matter of the Application of Pennsylvania General Energy, Corp. for a Well Spacing Order for three gas wells known as Hardy 1447-A (API No. 31-015-22919-01); Chemung SRA 1, Parcel A 1459 (API No. 31-015-22960-00); and Root 1514 (API No. 031-015-22975-00) in the Wilson Hollow Field located in the Town of Catlin, Chemung County, pursuant to Environmental Conservation Law Article 23, Mineral Resources.

INTERIM ORDER

(DEC File No. DMN 01-1)

WHEREAS:

1. The Commissioner's Decision and Order, dated June 21, 2001 ("the June 21 Order"), in the matter of the order of field-wide well spacing rules and the integration of interests pursuant to Environmental Conservation Law ("ECL") §§ 23-0501 and 23-0901 for the Wilson Hollow Field located in Steuben and Chemung Counties, New York, establishes spacing units for four existing wells and procedures for future well spacing and compulsory integration.

2. The Commissioner's Decision and Order, dated September 13, 2001 ("the September 13 Order"), in the matter of the order of field-wide well spacing rules and the integration of interests pursuant to ECL §§ 23-0501 and 23-0901 for the Wilson Hollow Field located in Steuben and Chemung Counties, New York, establishes a Spacing Unit for one existing well and procedures for future well spacing and compulsory integration.

3. The Director's Order, dated January 10, 2002, in the matter of the order of field-wide well spacing rules and the integration of interests pursuant to ECL §§ 23-0501 and 23-0901 for the Parker 1401 Unit of the Wilson Hollow Field located in Steuben and Chemung Counties, New York, establishes a Spacing Unit for one existing well (Parker 1401) pursuant to the procedures established by the June 21 and September 13 Orders.

4. The June 21 and September 13 Orders incorporated by reference the Stipulation executed by Pennsylvania General Energy, Corp. ("PGE" or "Applicant") and Department staff, dated December 27, 2000 ("Stipulation"), which provides for the efficient and economical development of the Wilson Hollow Field. The incorporated Stipulation sets forth the conditions and procedures for future well spacing and compulsory integration in the Wilson Hollow Field.

5. This Interim Spacing Unit Order ("Interim Order") is made pursuant to ECL Article 23, Title 5, and in accordance with the June 21 and September 13 Orders regarding Wilson Hollow Field.

6. Because negotiations between PGE and uncontrolled interests have not yet been concluded, the Department cannot now determine the extent to which compulsory integration is necessary.

7. Compulsory integration, if necessary in the units established by this Interim Order, will be addressed by further proceedings as provided herein, by the Stipulation, and in accordance with the ECL Article 23, Title 9.

DISCUSSION

Section IV of the Stipulation, entitled "Permit Application Procedures for Future Wells," establishes procedural requirements that both the Applicant and the Department must follow before an extension well or a unit well can be drilled in the Wilson Hollow Field, before production may proceed from an extension well or a unit well

in Wilson Hollow Field, and before the Department may issue a Well Spacing and Compulsory Integration Order in Wilson Hollow Field. The Stipulation requires, among other things, that the well be at least 5,280 feet from an existing well in Wilson Hollow Field and that the proposed Spacing Unit be no less than 320 acres and no more than 640 acres in size. Prior to production, the Applicant must document its control of at least 75 percent of the oil and gas interests within the proposed Spacing Unit, and must submit engineering and geologic data and analysis in support of the proposed Spacing Unit. Upon Department approval of the Spacing Unit, the Applicant must show proof of notification to all Operators and unleased owners of uncontrolled acreage in accordance with Paragraph IV.F.4 of the Stipulation.

FINDING OF FACTS

1. In accordance with Section IV of the Stipulation, PGE has submitted all required information to the Department. PGE has demonstrated, among other things, that it controls at least 75% of the oil and gas interests within each of the three proposed Spacing Units as detailed below:

- A. Hardy 1447-A (API No. 31-015-22919-01): 95.39% of oil and gas interests.
- B. Chemung SRA 1, Parcel A 1459 (API No. 31-015-22960-00): 97.7% of oil and gas interests.
- C. Root 1514 (API No. 031-015-22975-00): 87.46% of oil and gas interests.

2. These three proposed Spacing Units consist of various parcels and acreage in the Town of Catlin, Chemung County as detailed below:

- A. Hardy 1447-A: 32 parcels and 626.97 acres.
- B. Chemung SRA 1, Parcel A 1459: 44 parcels and 631.43 acres.
- C. Root 1514: 35 parcels and 568.60 acres.

The breakdown of acreage within each proposed Spacing Unit is shown on the attached maps and tabulations labeled Exhibits "B8", "B9", and "B10" (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; and Root 1514, respectively).

3. PGE has informed unleased owners, consistent with the procedural requirements contained in Paragraph IV.F.4 of the Stipulation, that their interests are encompassed by one or more of these three proposed Spacing Units (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; Root 1514), and has provided the Department with copies of the notice letters and return receipts.

The one unleased owner (Curt L. & Virginia Albertalli) in the Hardy 1447-A Spacing Unit has not submitted any comments objecting to or opposing compulsory integration. The one unleased owner (Thomas R. Knapp, Sr.) in the Root 1514 Spacing Unit has not submitted any comments objecting to or opposing compulsory integration. The owners of one unleased parcel in the Chemung SRA 1, Parcel A 1459 Spacing Unit, Thomas J. & Shirley A. and Daniel P. Semler ("Semlers"), through their attorney Christopher Denton, have objected to the proposed terms of compulsory integration. Negotiations continue between PGE and the Semlers.

4. PGE has informed Rural Energy Development Corporation ("Rural"), consistent with the procedural requirements contained in Paragraph IV.F.4 of the Stipulation, that its interests are encompassed by the Hardy 1447-A and Root 1514 Spacing Units. Rural objects to the proposed terms of compulsory integration. Negotiations continue between PGE and Rural.

5. These proposed Spacing Units have been developed by PGE and approved by Department staff in accordance with applicable provisions of the ECL and the June 21 and September 13 Orders. Department staff's approval of these proposed Spacing Units is based upon a thorough review of the seismic, geologic and engineering data provided by PGE, and is consistent with applicable provisions of the ECL and the June 21 and September 13 Orders.

6. In accordance with Paragraph IV.D. of the Stipulation, the Department notified PGE by letter dated April 8, 2002 of its approval of the preliminary configurations of these three proposed Spacing Units (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; Root 1514).

7. No substantive and significant comments regarding configuration of the units have been submitted to the Department. The ninety day notice period pursuant to section IV.F.4 of the Stipulation concluded July 3, 2002.

NOW, THEREFORE, having considered the matter and been duly advised and having found that the establishment of the three Spacing Units (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; Root 1514) in the Town of Catlin, Chemung County, therein is necessary to carry out the policy provisions of ECL Section 23-0301, it is hereby ORDERED that:

A. The Hardy 1447-A Spacing Unit is hereby established consisting of 32 parcels and containing 626.97 acres surrounding the Hardy 1447-A Well (API No. 31-015-22919-01) in the Town of Catlin, Chemung County, as shown on the attached map labeled Exhibit "B8" which shows the Spacing Unit boundary, parcel boundaries and the top and bottom hole locations of the well.

1. Only those separately owned tracts or parts thereof listed on the attached Exhibit "B8" tabulation are included in the Hardy 1447-A Unit.
2. Production from the Hardy 1447-A Well shall be allocated to each parcel within the Hardy 1447-A Unit based on the acreage of the parcel within the unit as a percentage of the total acreage in the Spacing Unit.
3. Effective as of the date of this Order, all operations including, but not limited to, operation of Hardy 1447-A Spacing Unit and future drilling of any infill well in accordance with the terms of the Stipulation upon any portion of this Spacing Unit shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in this Spacing Unit by the owner or several owners thereof.
4. That portion of the production allocated to each tract included in the Hardy 1447-A Spacing Unit shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.

B. The Chemung SRA 1, Parcel A 1459 Spacing Unit is hereby established consisting of 44 parcels and containing 631.43 acres surrounding the Chemung SRA 1, Parcel A 1459 Well (API No. 31-015-22960-00) in the Town of Catlin, Chemung County, as shown on the attached map labeled Exhibit "B9" which shows the Spacing Unit boundary, parcel boundaries and the top and bottom hole locations of the well.

1. Only those separately owned tracts or parts thereof listed on the attached Exhibit "B9" tabulation are included in the Chemung SRA 1, Parcel A 1459 Spacing Unit.
2. Production from the Chemung SRA 1, Parcel A 1459 Well shall be allocated to each parcel within the Chemung SRA 1, Parcel A 1459 Spacing Unit based on the acreage of the parcel within the Spacing Unit as a percentage of the total acreage in the Spacing Unit.
3. Effective as of the date of this Order, all operations including, but not limited to, operation of Chemung SRA 1, Parcel A 1459 Spacing Unit and future drilling of any infill well in accordance with the terms of the Stipulation upon any portion of this Spacing Unit shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in this Spacing Unit by the owner

or several owners thereof.

4. That portion of the production allocated to each tract included in the Chemung SRA 1, Parcel A 1459 Spacing Unit shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.
- C. The Root 1514 Spacing Unit is hereby established consisting of 35 parcels and containing 568.60 acres surrounding the Root 1514 Well (API No. 031-015-22975-00) in the Town of Catlin, Chemung County, as shown on the attached map labeled Exhibit “B10” which shows the Spacing Unit boundary, parcel boundaries and the top and bottom hole locations of the well.
1. Only those separately owned tracts or parts thereof listed on the attached Exhibit “B10” tabulation are included in the Root 1514 Spacing Unit.
 2. Production from the Root 1514 Well shall be allocated to each parcel within the Root 1514 Spacing Unit based on the acreage of the parcel within the Spacing Unit as a percentage of the total acreage in the Spacing Unit.
 3. Effective as of the date of this Order, all operations including, but not limited to, operation of Root 1514 Spacing Unit and future drilling of any infill well in accordance with the terms of the Stipulation upon any portion of this Spacing Unit shall be deemed for all purposes to be the conduct of such operations upon each separately owned tract in this Spacing Unit by the owner or several owners thereof.
 4. That portion of the production allocated to each tract included in the Root 1514 Spacing Unit shall, when produced, be deemed for all purposes to have been produced from such tract by a well drilled thereon.
- D. PGE is the operator of all three Spacing Units (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; Root 1514) and the wells drilled therein.
- E. PGE, as the Spacing Unit Operator, shall file a copy of this Order with the Chemung County Clerk against all parcels in these three Spacing Units (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; Root 1514), and shall submit proof of such filing to the Director of the Bureau of Oil and Gas Regulation, in the Department’s Division of Mineral Resources not later than ninety (90) days after the date of this Order.
- F. PGE is authorized to immediately release all escrowed royalty payments for these three Spacing Units (Hardy 1447-A; Chemung SRA 1, Parcel A 1459; Root 1514), including a one-eighth royalty to Albertalli (Hardy 1447-A: Tax Map # 27-1-30, 1.67 acres), the Semlers (Chemung SRA 1, Parcel A 1459: Tax Map # 17-1-44.1, 14.55 acres), Knapp (Root 1514: Tax Map # 27-1-7: 16.25 acres), and Rural Energy Development (Hardy 1447-A: Tax Map # 27-1-2, 0.22 acres; Tax Map # 27-1-29.1, 22.03 acres; Tax Map # 27-1-29.2, 5 acres. Root 1514: Tax Map # 27-1-2, 37.82 acres; Tax Map # 27-1-29.1, 17.26 acres). The release of royalty payments equal to the lowest royalty fraction, but no less than one-eighth, contained in any oil and gas lease within the applicable unit to the Semlers and Rural does not preclude additional royalty payments, or allocation of production, if so provided by continued negotiations or by a final Compulsory Integration Order in accordance with Paragraph VII of the Stipulation.
- G. Terms for compulsory integration, if necessary, which specify the basis upon which the Semlers or Rural will share in reasonable costs and expenses of drilling and producing, as specified in subdivision three of ECL 23-0901, will be established by a final order, in accordance with Paragraph VII of the Stipulation. PGE, the Semlers, or Rural may request a hearing in the matter of compulsory integration for the Hardy 1447-A Spacing

Unit, the Chemung SRA 1, Parcel A 1459 Spacing Unit, or the Root 1514 Spacing Unit at any time.

H. This Order shall apply to, and be binding upon, PGE and its subsidiaries, successors and assigns.

IN WITNESS WHEREOF: The Department of Environmental Conservation has caused this Order to be signed and issued and has filed the same in its office in the County of Albany, New York this 31st day of January, 2003.

DIVISION OF MINERAL RESOURCES
DEPARTMENT OF ENVIRONMENTAL CONSERVATION
BRADLEY J. FIELD, DIRECTOR

signed

Albany, New York
January 31, 2003

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