

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

In the matter of an order for the integration of interests in spacing units pursuant to ECL §23-0901 for the

STIPULATION

PINE HILL 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 order the integration of interests in Spacing Units for the Pine Hill Field, Steuben County, New York;

B. The Department and Columbia Natural Resources, Inc. (“CNR” or “the Company”) have conferred and agreed upon certain terms to integrate interests in the Pine Hill 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.

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 “A” - Map of Pine Hill Field which shows existing wells and units proposed to be established by the final Order.
2. Exhibits “B1” through “B4” - Individual unit maps for proposed units in Pine Hill Field.
3. Exhibit “C” - Signed and dated Company report on Pine Hill Field.
4. Exhibit “D” - Map of Pine Hill Field which shows the location of seismic coverage used by the Company to define the geologic feature and an outline of the geologic feature, based on the Company’s interpretation of geologic and engineering data.

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. "Pine Hill Field" and/or "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 Black River Formation, as modified, if necessary, within 90 days of the effective date of the Order to reflect changes in property ownerships and descriptions.

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 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 Spacing Unit.

II. EXISTING WELLS

A. There are four existing wells in the Field which are capable of producing natural gas. The proposed Spacing Units for the existing wells are shown on Exhibits "A" and "B1"- "B4", attached hereto and made a part hereof. The existing wells are identified as follows:

<u>WELL NAME</u>	<u>CNR NUMBER</u>	<u>API NUMBER</u>
Peck	623516	31-101-22766-00
S&D Farms #1	623144	31-101-22759-02
S&D Farms #2	623504	31-101-22758-01
Wolcott	623284	31-101-22760-01

B. The individual tracts of land included within the four proposed Spacing Units are shown on the respective individual maps at Exhibits "B1"- "B4". The Order will provide for integration of all tracts and interests into each Spacing Unit for purposes of fair and equitable disbursement of production revenue. The Order will also provide 90 days after its effective date for updated Exhibits "A" and "B1"- "B4" which reflect changes in property ownerships and descriptions to be prepared, if necessary, and made a part thereof. Production shall be allocated to each parcel within each Spacing Unit based on the 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. For all production from existing wells prior to the Order, the Company shall submit monthly reports to the Department of production volumes for each well.

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. The Company shall be the Operator of each 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.

F. Prior to the scheduled hearing date, the Company shall submit to the Department an affidavit which states:

1. That each owner of unleased oil and gas interests within each 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; and

2. That each Operator of public record owning fee or leasehold interests to oil and gas within each 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.

III. PERMIT APPLICATION PROCEDURES FOR FUTURE INFILL 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 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 is Operator of the unit well in the existing Spacing Unit pursuant to Paragraph IIE 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; and

5. 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.

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

IV. 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.

V. 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.

VI. 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
New York State Department of Environmental Conservation
Division of Mineral Resources
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:

Mary Sue Schulberg
Senior Attorney and Assistant Secretary
900 Pennsylvania Avenue
Charleston, WV 25302
Phone: (304) 353-5012 Fax: (518) 353-5231

VII. On the basis of all of the foregoing, and in order to provide for the orderly and uniform development of the Pine Hill 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.

VIII. Upon issuance of an Order establishing Spacing Units in the Pine Hill 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 parcels 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.

IX. 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.

X. CNR explicitly acknowledges the right of the Department to request a hearing at any future date, pursuant to Article 23, Title 5 of the ECL, to determine the necessity for and to establish spacing rules to govern any extension of Pine Hill Field.

XI. This Stipulation constitutes the entire agreement and understanding between the parties hereto with respect to the subject matter hereof between CNR 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.

XII. This Stipulation shall apply to, and be binding upon, CNR, its successors and assigns.

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

XIV. 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: _____

Arlene J. Lotters
Program Counsel

Columbia Natural Resources
900 Pennsylvania Avenue
Charleston, WV 25302

By: _____

Mary Sue Schulberg
Senior Attorney and Assistant Secretary

Dated: _____, 2001