

**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

TERRY HILL SOUTH FIELD
Chemung 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 Terry Hill South Field, Chemung County, New York;

B. The Department and Fairman Drilling Company (“Fairman” or “Company”) have conferred and agreed upon certain terms to establish well spacing in the Terry Hill South Field, Chemung 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 Terry Hill South Field which shows existing wells and units proposed to be established by the final Order.
2. Exhibits “B1” - “B8” - Individual unit maps and ownership tabulations for proposed units in Terry Hill South Field.
3. Exhibit “C” - Signed and dated Company report on Terry Hill South Field.
4. Exhibit “D” - Map of Terry Hill South 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.
5. Exhibit “E” - Map of Terry Hill South Field which shows the location of seismic coverage used by the Company to define the geologic feature in the vicinity of the proposed units.

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. "Terry Hill South Field" and/or "Field" means that area in Chemung County, New York within the bold 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, 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. "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. "Unit Well" means the first well drilled within a proposed Spacing Unit as defined by the bold outline on the map attached hereto as Exhibit "A."

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

F. "Extension Well" means any well completed in the Black River Formation drilled outside a proposed or approved Spacing Unit

1. within five miles of a well in the Field and determined to be a part of the Field by reservoir testing results and geologic analysis, or
2. which results in a proposed Spacing Unit which abuts a proposed or approved Spacing Unit in the Field.

II. EXISTING WELLS

A. There are six existing wells in the Field, five of which are producing natural gas, a sixth well waiting on completion and three additional wells scheduled to be drilled in 2002. The proposed Spacing Units for these nine wells are shown on Exhibits "A" and "B1" - "B8" attached hereto and made a part hereof. The six existing wells are identified as follows:

<u>WELL NAME & NUMBER</u>	<u>API NUMBER</u>
Broz Unit #1	31-015-22826
Clauss #1-A	31-015-22889-01
Kienzel #1-A	31-015-22880-01
Kimball #1	31-015-22857
Lant #1	31-015-22862
Gublo #1	31-015-22910

Three proposed wells, the Hinman #1, with API Number 31-015-22953, the Colson #1, and the Lant #2, with API Number 31-015-22977-00, will be included in the Field.

B. The individual tracts of land included within eight proposed Spacing Units are shown on the respective individual maps at Exhibits "B1" - "B8". 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 "A" and "B1" - "B8" which reflect changes in property ownerships and descriptions to be prepared and made a part thereof, if necessary. 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. Production may proceed from an existing well prior to the Order when the Company provides the Department with an affidavit stating:

1. That the Company controls 75% or more of the unit acreage,
2. That all royalty payments attributable to leased and unleased parcels 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,
3. 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; and
4. 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.

D. For all production from existing wells prior to the Order, the Company shall submit quarterly reports to the Department of monthly production volumes for each well.

E. 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.

F. 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.

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. Applicant has the right to develop all the oil and gas in a 660 foot radius of the well, whether by fee ownership, lease, farmout or voluntary participation arrangement, or the Applicant has the right to develop 85% of the oil and gas in a 660 foot radius of the well, whether by fee ownership, lease, farmout or voluntary participation arrangement and the Applicant provides the Department with justification that it is necessary to drill a well at the given location and that the Applicant has provided notice and an opportunity for comment to all owners of uncontrolled acreage, and the Department finds that no facts are in dispute;

2. The Company 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 well must be at least 9,000 feet along the strike or 5,280 feet perpendicular to the strike of the geologic feature depicted in Exhibit "D" from an existing well in the 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 or unit well naming the Company as Operator shall allow the drilling, completion and testing of the well.

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

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;

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) In the case of extension wells, reservoir testing results and geological analysis are submitted which support the position that the well is part of the Field.

D. Production may proceed from a unit well when the Company provides the Department with an affidavit stating:

1. That the Company controls 75% or more of the unit acreage, and
2. That all royalty payments attributable to leased and unleased parcels 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.

E. Upon approval of the Spacing Unit by the Department, production may proceed from an extension well when the Company provides the Department with an affidavit stating:

1. That the Company controls 75% or more of the unit acreage, and
2. That all royalty payments attributable to leased and unleased parcels 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.D. of this stipulation shall apply. 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.E. and IV.F. also apply.

G. For all Stipulation unit 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. The Order will also provide 90 days after its effective date for updated Exhibits "A" and "B1" - "B8" which reflect changes in property ownerships and descriptions to be prepared and made a part thereof, if necessary. 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.

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

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:

1. That the Company controls 75% or more of the unit acreage, and

2. That all royalty payments attributable to leased and unleased parcels 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.

K. For all production from Stipulation wells prior to the Order, the Company shall submit quarterly reports to the Department of monthly production volumes for each well.

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. Applicant has the right to develop all the oil and gas in a 660 foot radius of the well, whether by fee ownership, lease, farmout or voluntary participation arrangement, or the Applicant has the right to develop 85% of the oil and gas in a 660 foot radius of the well, whether by fee ownership, lease, farmout or voluntary participation arrangement and the Applicant provides the Department with justification that it is necessary to drill a well at the given location and that the Applicant has provided notice and an opportunity for comment to all owners of uncontrolled acreage, and the Department finds that no facts are in dispute;

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 well must be at least 9,000 feet along the strike or 5,280 feet perpendicular to the strike of the geologic feature depicted in Exhibit "D" from an existing well in the 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 or unit well naming Applicant as Operator shall allow the drilling, completion and testing of the well.

C. Prior to production from a proposed extension well or unit 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 arrangement 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 each 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) In the case of extension wells, reservoir testing results and geological analysis are submitted which support the position that the well is part of the 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 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.

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:

1. That the Company controls 75% or more of the unit acreage, and
2. That all royalty payments attributable to leased and unleased parcels 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:

3. 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

4. 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.

5. 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 is Operator of the unit or extension well in the existing Spacing Unit pursuant to Paragraph IIF, IIIB, or IVB 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.

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 submit to the Department, for approval, a proposed reservoir/production testing program and schedule. The test program must be designed to determine the reservoir parameters necessary to justify a production unit for the well and must be conducted as soon as is practicable after completion operations have ended. 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) Estimate of original hydrocarbons in place using volumetric calculations.
- (2) Deliverability testing results and evaluation of pressure drawdown and build-up testing.
- (3) Initial reservoir pressure.
- (4) Geologic 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.
- (5) Explanation and justification of proposed unit size, orientation and well location.
- (6) 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 parcel, 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 reservoir/production test. A Department representative may elect to witness any or all stages of the test.

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 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.
- 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 parcels 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:

Earl F. Fairman, Managing General Partner
Fairman Drilling Company
P.O. Box 288
DuBois, Pennsylvania 15801-0288
Phone: (814) 371-8410 Fax: (814) 371-8705

X. On the basis of all of the foregoing, and in order to provide for the orderly and uniform development of the Terry Hill South 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 Terry Hill South 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.

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 Fairman 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, Fairman and its subsidiaries, successors and assigns.

