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TENNESSEE OIL & GAS ASSOCIATION

FROM THE PRESIDENT

Crude oil prices now are well above our wildest dreams. This has sparked renewed interest in the Appalachian Basin in general and Tennessee in particular.

Tennessee's and the Appalachian Basin's potential were first pointed out about two years ago in a publication titled, *A Report by the Appalachian and Illinois Basin Directors of the Interstate Oil & Gas Compact Commission*. "Our most drilled but least explored basins deserve a fresh look," the report concluded.

"Take a second look at the 'most drilled, least explored' basin in the world," a headline in the study recommends.

That report got operators throughout the country looking at Tennessee, but it took soaring oil prices to get them to actually move in and start drilling. As a result, both leasing and drilling activity are increasing with each passing month.

Atlas America is leading the way in drilling. During October and November, Atlas drilled 48 wells in Morgan and Anderson counties, many exceeding depths of 6,000 feet.

In late November, an Atlas America well being drilled on the Morgan-Anderson county line hit a fracture in the base of the Fort Payne formation. The crew killed the well with water, came out of the hole and shut the orbit valve. It was several days before the crew could get back to the rig because of the weather.

As they were rigging down, the well unloaded and blew off the orbit valve. When parts from the blast hit the rig, it

caused a spark, which caused the rig to catch fire. Fortunately, no one was hurt. Wild Well Control was brought in to get the well under control. Those on the scene estimated the well would IP at 10 million cubic feet a day plus.

We also have had our first basement test in some time. In early December, Montello Resources Ltd. says it reached total depth of 9,580 feet in what is believed to be the Precambrian basement on the Bowen No. 2 in Morgan County, Tn. Montello released the rig, which has rigged down and moved out. The company said the well evaluation process would commence, and that Montello, et al, were in the final stages of acquiring additional acreage in Morgan County.

Industry Growing

Tennessee ranks 22nd in oil and gas production among all states, so we don't yet have a major impact on the state's economy. But our impact is growing. Companies such as Atlas America, Vinland Energy, Chesapeake Energy and NGAS Resources have accelerated their drilling programs and now are contributing 8 million cubic feet of new gas sales a day to the state's total. At the rate they are drilling, that 8 million may be 20 million before the end of 2008.

Across the state, other Kentucky and Tennessee companies are capitalizing on the opportunities. In Overton County, Young Oil Corporation continues to hit 1,000 barrel-a-day wells at shallow depths.

Miller Petroleum is expected to begin developing its Koppers leases this year, drilling some 80 identified commercial locations for Chattanooga Shale and Big Lime.

One thing driving this leasing activity is the second look folks are giving the Chattanooga Shale, which underlies most of middle and eastern Tennessee.

Until very recently, we had considered the Chattanooga Shale only as a marker below the prolific Fort Payne formation that we were drilling in Fentress, Morgan and Scott counties. In most cases, the Chattanooga was only 40 feet thick, so we didn't believe it had much potential to produce gas in commercial quantities, although a handful of wells produced naturally from the shale.

Now we know it can be an excellent gas producer after stimulation. Many operators are now looking at the 4,000 abandoned wells in Tennessee, many of which have exposed the shale. These wells can be acquired, stimulated and put into a pipeline at a very low cost. We see this trend expanding in the coming months and years.

STRONGER Review

Tennessee was very active in addressing regulatory issues in 2007. In June, a review of Tennessee oil and gas regulations was conducted by STRONGER Inc. (State Review of Oil and Natural Gas Environmental Regulations). STRONGER is a nonprofit organization that has re-

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ceived funding from the U.S. Environmental Protection Agency, Department of Energy, and the API.

The review was done through voluntary cooperation between the STRONGER panel and Tennessee officials. The results were published in a report dated September 2007. The Tennessee Oil & Gas Association has been actively working with state oil and gas officials to make regulatory revisions sug-

gested by the report. This work will continue in 2008.

Tennessee continues to be one of the country's most attractive areas for oil and gas exploration. Drilling activity is expected to increase in this year as existing operators expand their programs and companies new to Tennessee begin drilling their first wells. Many areas of the state have oil and gas potential, but remain un-

explored. Even the most explored areas still contain attractive opportunities to lease.

I hope 2008 will be the year your company decides to explore Tennessee.

