

Duhring Resource Company

600 Market Street
Warren, PA 16365

Phone (814)723-3221

Fax (814)723-7950

April 27, 2007

Randy Moore, Regional Forester
U.S. Forest Service
636 E. Wisconsin Ave, Suite 800
Milwaukee, WI 53202

Dear Mr. Moore,

As counsel for and part owner of Duhring Resource Company (Duhring), I write concerning breaches of Forest Service (FS) policy. The breaches have been committed by Kathleen Morse, supervisor of the Allegheny National Forest (ANF).

On March 20, 2007, Duhring submitted a plan of operations for oil and gas wells, access roads, and pipelines, to the ANF. The proposed development is located in Sheffield Township, Warren County, PA. On April 3, 2007, Ms. Morse sent written objections to the PA Department of Environmental Protection (DEP) as to eight of the proposed wells. No copy of the objection letter was sent to Duhring. Duhring has now obtained a copy of the objection letter; a copy is enclosed for your review.

The actions of Ms. Morse are problematic for the following reasons. First, the failure of Ms. Morse to send a copy of the objections to Duhring is not merely rude—it is violative of the FS directive to initiate negotiations. After the objections were sent to the DEP Ms. Morse did cause an ANF employee to telephone Duhring to advise that an objection letter was sent. At Duhring's request that employee promised to promptly send a copy of the objection letter so Duhring could know the nature of the objections. The copy was not sent as promised. Instead, Duhring had to send a demand, by certified mail, in order to learn the nature of the ANF objections. A copy of the Duhring demand letter is also enclosed. Only after receiving the demand letter did the ANF provide a copy of its objection letter to Duhring. As a result Duhring did not learn the nature of the ANF's objections until over one month after Duhring's submission of its plan of operations. The secretive nature of Ms. Morse's objection process is in direct contravention of the FS Manual.

Second, Ms. Morse's DEP objection process was the subject of a previous complaint. That previous complaint was made by PAPCO and received coverage in the Warren Times Observer. In that article Ms. Morse was quoted as follows: "Meeting with operators prior to the filing of applications for permits with DEP is the agency's

‘preferred method’ of doing business with producers, said Morse.” (A copy of the article is enclosed.)

In Duhring’s case, Duhring has not yet filed applications for the permits with DEP. (This status is easy for the ANF to discern—under PA law permit applications must be preceded by notice to the surface owner. Duhring did not send notice to the ANF prior to the submission of the plan of operations. Since Duhring has not yet filed permit applications with the DEP, we could easily achieve Ms. Morse’s “preferred method of doing business”, i.e. a meeting. But instead Ms. Morse deviated from her “preferred method” and fired off the objection letter to the DEP. That shoot first/ask questions later attitude is, unfortunately, the true “preferred method” of operation Duhring has encountered over the past two years. (There are many “secretive” complaint examples that other producers and I would be happy to share with you.)

But more important than the rude behavior or deviation from the “preferred method” is the wanton disregard of explicit policy. Permit me to use well 7-18 as an example. To the DEP Ms. Morse objected as follows: “As proposed, well 7-18 and the access road would directly impact the North Country National Scenic Trail as administrated by the National Park Service. The NCNST was federally designated as a National Scenic Trail in 1980...”

Duhring’s rights as to well 7-18 are what the FS terms “Outstanding Rights”. Under section 2832 of the FS Manual Ms. Morse’s objections should have been pursued in a far different manner. Negotiation with Duhring should have been the first step. Next, under section 2832.2 Ms. Morse should have consulted you as well as the Office of the General Counsel. Of course, it is possible that you and Counsel were contacted. But if that is the case, then it is all the more bewildering as to why Duhring was not provided a copy of the DEP objection letter. And had your General Counsel been involved your Counsel would have found it significant that in the immediate proximity of well 7-18 numerous other wells exist adjacent to the North Country Trail and that under Pennsylvania law the subsurface owner is regarded as the dominant tenement. (The significance of state law is observed at section 2830.1 of the FS Manual.)

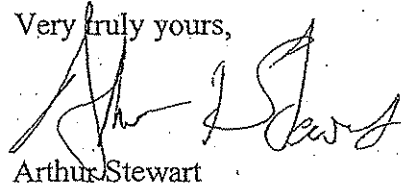
Moreover, Ms. Morse routinely ignores the FS Manual’s dictates for what is to occur after a producer’s plan of operations is reviewed with approval. Despite complaints by me and other producers Ms. Morse insists upon issuing what she terms a “Notice to Proceed”. That notice is imbued (improperly) with what she asserts are applicable conditions. As I trust you are aware, the FS Manual provides for quite different documentation.

The difficulties outlined above are not occurring in a vacuum. To my observation the ANF staff has been disingenuous in their communications over the past year. During that time oil and gas producers on the ANF formed a committee to meet with ANF staff. The initial focus of those meetings was a unilateral pronouncement, by the ANF, that it owned and controlled all of the stone within the ANF.

The ANF has not carried through with assurances made by its staff at those meetings. In the enclosed newspaper article Ms. Morse is quoted as saying: "We view our overall relationship (with producers) as being very positive." I can assure you that all of the producers participating in those meetings are concerned by the direction and posture of the ANF staff; the producers do not view the meetings as productive. To the contrary, the good working relationships built over decades of interaction have deteriorated markedly in the past two years. The oil and gas producers participating in the meetings represent the largest producers operating on the ANF.

I am sending a copy of this letter to Ms. Morse as I think she is entitled to know the specifics of my objections. However, it appears beyond Ms. Morse's power or desire to follow the FS Manual. Section 2830.1 of the FS Manual recognizes the respective rights of the parties and sets out a uniform way for ANF staff to work in harmony with those rights. I request that, as Regional Forester, you implement the steps necessary to see that compliance with FS procedures by ANF staff is properly maintained.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Arthur Stewart".

Arthur Stewart

AJS

Enclosures

c: Kathleen Morse
Congressman John Peterson
POGAM



United States
Department of
Agriculture

Forest
Service

Allegheny National Forest
Supervisor's Office

222 Liberty Street
PO Box 847
Warren, PA 16365
(814) 723-5180
FAX (814) 726-1465

File Code: 2830

Date: April 3, 2007

Robert Gleeson
Pennsylvania Department of Environmental Protection
Northwest Regional Office
230 Chestnut Street
Meadville, PA 16335-3481

Dear Mr. Gleeson:

The Forest Service, surface landowner of the Allegheny National Forest (ANF) in northwest Pennsylvania, files this official objection to the well permit applications submitted by Duhring Resource Company. The objection is for seven (7) wells located in Sheffield Township, Warren County, Pennsylvania on Warrant 2752. This objection pertains to Title 58, Section 601.205 of the Pennsylvania Oil and Gas Act, "Well Location Restrictions."

The wells in objection in Warrant 2752, Lot 7, are numbered 7-18, 7-20, 7-21, and 7-22. The Well (Farm) name is Lot 7 and is located within the Sheffield and Ludlow Quadrangles. The well plats for the objected wells were submitted to the Bradford District Office on March 20, 2007. As proposed, Well 7-18 and the access road would directly impact the North Country National Scenic Trail (NCNST) as administrated by the National Park Service. The NCNST was federally designated as a National Scenic Trail in 1980 under Public Law 90-543. Wells 7-20 and 7-21 are proposed within large spring seeps (wetlands) that drain directly into a wetland west of SR 948. Well 7-22 is proposed within this wetland. Please see the attached pictures.

In addition to objecting to these seven (7) wells, the Forest Service would like to bring to your attention the situation regarding four (4) other wells and their associated roads that are proposed on side slopes greater than 40%. In addition to being on steep side slopes many of these wells are within close proximity (200 feet or closer) to Rock Run, a High Quality Cold Water Fisheries stream as designated by the Pennsylvania Fish and Boat Commission. The first of these wells is numbered 8-43 located in Warrant 2752, Lot 8. The Well (Farm) name is Lot 8 and is within the Ludlow Quadrangle (submitted to the Bradford District Office on March 20, 2007). The other three (3) wells are numbered D-25, D-26, and D-27 located in Warrant 2445, Lot 9. The Well (Farm) name is Lot 9 and is within the Ludlow Quadrangle (submitted to the Bradford District Office on March 22, 2007).

Given the location of these wells we believe that standard Best Management Practices (BMP's) will not be effective in protecting water resources. Therefore, we request your assistance in working with us and the operator to identify site-specific mitigation measures and/or alternative drilling technologies to address these concerns. If you have any questions, please contact Paul Weese at (814) 362-4613.

Sincerely,

/s/ Kathleen S. Morse
KATHLEEN S. MORSE
Forest Supervisor





Saturday-Sunday

Saturday, April 21, 2007



TODAY: Sunny.
 TONIGHT: Clear.
 HIGH: Lower 70s
 LOW: Lower 30s
 SUN: Rise 6:28 a.m.
 Set 8:04 p.m..
 Complete report on Page A8



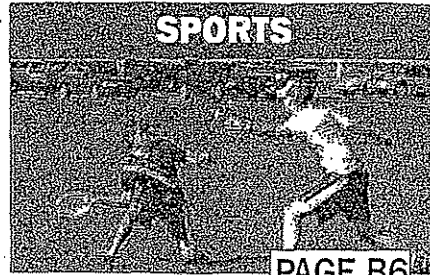
What your pet says about you

Do animals mirror who we are? Experts reveal surprising answers, in this week's USA WEEKEND.

Deaths

Robert Kitch, 89, of Greenville

Full obituaries can be found on Page A-2



SPORTS

PAGE B6



COMMUNITY/Week of the Young Child

PAGE D1

Scenic vs. OGM

Producer files complaint over ANF procedure

By CHUCK HAYES

Staff Writer

The supervisor of the Allegheny National Forest calls a claim that she is biased against oil and gas production on the forest "completely untrue."

But a Warren-based oil and gas producer has filed a complaint against the ANF supervisor's office because of the handling of plans to drill on the forest.

The focus of the complaint is five oil and gas wells which U.S. Energy Development Corp. has proposed drilling on the Allegheny National Forest, in Mead Township, near Rt. 59.

PAPCO, Inc. has filed a formal objection against the supervisor of the Allegheny National Forest, claiming she clearly "dislikes oil and gas activities on the Allegheny

See ANF / A-8

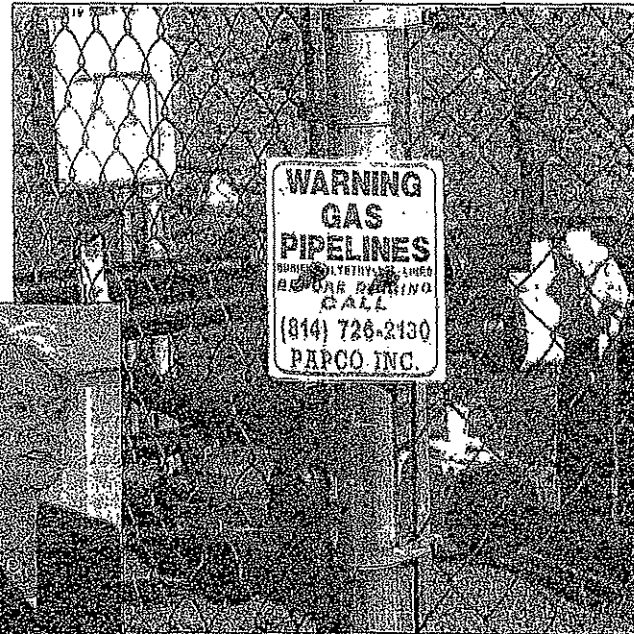


Photo by Chuck Hayes

Kathleen Morse, left, supervisor of the Allegheny National Forest with the U.S. Forest Service, has denied any bias against the oil and gas industry. The head of an area oil and gas production company has filed a complaint with the regional forester, complaining of bias.

Rexnord Building sale may be close

WCCBI in talks for former plant

By EMILY WHITAKER

Staff Writer

After being on the market for over a year, the industrial facility that formerly housed Rexnord may soon have a new owner.

According to Warren County Chamber of Business and Industry President and CEO, Jim Decker, the sale of the facility — which was purchased by WCCBI in January of 2006 — should be determined within the next few weeks.

Described as the "imminent" sale of the facility within the April edition of WCCBI's public newsletter, Decker, said the process of negotiating the final sale has been hard fought.

"My use of imminent simply meant that every week its going to have a next week," he joked with regards to the sale. "It's been a long process, but we are hoping for a positive outcome as early as next week."

Experiencing a number of unexpected delays throughout the process, Decker said that none of the "hold ups"

Questions linger about VT objection

ANF procedure...

National Forest."

PAPCO owns the subsurface rights at the five sites and has leased the drilling rights to U.S. Energy Development Corp.

In the letter sent on Friday to Regional Forester Randy Moore, Darryl Pierce, secretary and treasurer of PAPCO, Inc., said that "the non-cooperative actions of Ms. Morse (forest supervisor Kathleen Morse) cannot be allowed to continue as they will only waste more of the taxpayers' money."

Plans for the wells were submitted to the ANF supervisor's office in late January.

U.S. Energy subsequently applied to the state's Department of Environmental Protection for the required permits.

On Feb. 8, Morse filed an objection with DEP, stating, "The wells in objection are located in very close proximity to State Route 59 which was nationally designated as the Longhouse National Scenic Byway in 1990 by Congress."

Morse told DEP, "We believe that this close proximity will jeopardize and cause irreversible damage to the scenic value and recreation quality of this National Scenic Byway."

PAPCO contends that the Forest Service, according to its own policies, is to work with subsurface rights owners to resolve drilling-related issues, rather than allowing producers to apply for a state permit and then filing objections.

In the letter from PAPCO, Pierce contends, "Ms. Morse waited until the permit applications were submitted to the DEP and then lodged an official objection under the Pennsylvania Oil and Gas Act. This action was clearly contrary to established ANF policy."

"Ms. Morse's objection was improper," PAPCO said in the letter to the regional forester. "Moreover, it appears that Ms. Morse has decided to abdicate her responsibility under ANF policy by burdening the DEP's Oil and Gas Program to do her job."

PAPCO said, "We in the regulated community were unaware of the ANF's responsibilities had been transferred to a state agency."

Supervisor's objections to the DEP were "added to the confusion between the

ANF and one of its important constituency groups."

The ANF supervisor, PAPCO contends in the letter to the regional forester, "dislikes oil and gas activities within the ANF. The problem with her increasingly hostile and restrictive approach is that the United States does not own the mineral rights and mineral rights holders have constitutionally protected rights to secure their minerals."

PAPCO warned, "At some point, the ANF's combative actions will rise to the level of 'taking' and the Forest Service will be sued by the mineral owners."

If the regional forester agrees that the ANF has the responsibility to protect surface resources from the impact of oil and gas production, said PAPCO, "then Ms. Morse should be reprimanded and/or transferred to a staff position where her personal prejudice against multiple-use of forest lands does not jeopardize the rights of private citizens."

Pierce told the *Times Observer* on Friday that PAPCO operates sites on sensitive areas such as the McFaddin National Wildlife Refuge in Texas and has worked without problems with the U.S. Coast Guard, Department of Conservation and Natural Resources and Texas Railroad Commission.

"But we've never encountered such a misunderstanding of property rights as we have with the present administration of the Forest Service," said Pierce. "We've never seen anything like it."

Morse said she regards the complaint as a "non-issue" because "the objection has been resolved."

Morse said Forest Service personnel met with representatives of U.S. Energy and "found another location for the wells that is more acceptable from a visual standpoint."

Meeting with operators prior to the filing of applications for permits with DEP is the agency's "preferred method" of doing business with producers, said Morse.

"We try to get with them early," she said. "We view our overall relationship (with producers) as being very positive."

What was different in the case leading to the PAPCO complaints, said Morse, is U.S. Energy applied

for the DEP permits at the same time company representatives notified the Forest Service of the drilling plans.

"What is not reflected (in the complaint)," said Morse, "is the same constraints. When we got the notice (from DEP) we had fifteen days to respond. We didn't have time to get on the ground."

Morse said the Forest Service would have preferred if the company had come to the agency well before applying for the DEP permits.

"It's a timing thing that prevented us from working up front," she said. "When we objected, it stopped the process and it worked for all of us."

"They should have come to us before they submitted an application to DEP," said Morse. "In this case, the two occurred simultaneously."

In the U.S. Energy case, Morse said the Forest Service had no choice but to "stop the clock" by filing objections with DEP because there were concerns about the visual impact of the proposed wells.

As for PAPCO's claim that she harbors a bias against oil and gas drilling on the forest, Morse said, "That's completely untrue."

"I recognize and appreciate the oil industry's part in the history, legacy and culture of this region and I accept the fact that drilling occurs on the Allegheny National Forest," said Morse.

If she owned subsurface rights on the forest, said Morse, should would be "very upset" if a federal agency attempted to prevent her from exercising her rights as a property owner.

But as the agency responsible for protecting the forest, the Forest Service is "trying to sustain the values of a national forest that is under extreme pressure from development," she said. "We are doing the very best we can but it's not an easy situation."

Morse acknowledged that with oil and gas production rising to record levels in the region and a limited staff, the response of the Forest Service to producers' plans to drill may seem slow.

But Morse said it is wrong to interpret the slow response as "some sort of bias. Nothing could be further from the truth."

Quick thinking...

March 23, waiting for a scheduled hearing. He noticed something seemed to be wrong with Herzog, the way his head was dipping, like he was slowly falling asleep in a recliner in front of a Sunday football game.

"His head went down in increments, like he was nodding," Dougherty said. "We'd say something to him and he would open his eyes and respond to us."

Someone in the room speculated that maybe Herzog had a rough night, maybe he didn't get enough sleep.

Dougherty didn't think so. Prior to joining the city police department, Dougherty worked for the Venango County Sheriff's Department. He pulled a woman over for a suspected DUI. It turned out, she was having a hypoglycemic episode. Dougherty thought Herzog was displaying similar symptoms. He walked over to the detective and immediately caught a whiff of something.

Herzog's breath smelled like fruit — a telltale sign of hypoglycemia. Dougherty touched the back of Herzog's neck. Herzog's skin was soaked with sweat. Dougherty checked his pulse. "It was really high," he said, "Like 119."

Herzog was unresponsive. Dougherty and another police officer grabbed Herzog by his arms and legs and lifted. They put him on the floor with a coat under his head for a pillow. Dougherty called for an ambulance on his radio.

By now, Herzog was barely conscious. He was headed for a diabetic coma. Next stop — possible brain damage or death. Unknown to Dougherty or anyone else in the room, Herzog's doctor recently switched the brand of insulin he had been taking for the last 25 years. When a diabetic switches insulin, there is a period of adjusting as the doctor tries to regulate to the optimum dosage level.

Recently, Herzog had been testing his blood sugar level five times a day. He keeps a tester and insulin in his office. He injects himself with insulin once in the morning and once in the evening to keep his diabetes under control.

Until March 23, he never had a full-blown episode of hypoglycemia. "Normally, that probably wouldn't have happened," Herzog said. "They are still

playing with the amount of trying to get the perfect level."

Herzog said he doesn't remember anything from the episode in the Nurse's Room. "I was sitting there with some people and apparently some people and apparently dozed off," he said. "Some noticed. They thought I was

"He was going into a daze," Dougherty said. "No body at the point he was at. I'd say he would barely open his eyes. It was a stroke, because his breath was the same."

Dougherty stayed in the room as emergency personnel, informed of Herzog's condition, tried to watch him and keep him crew aware of what was going on. He radioed a couple of times that the level was fading. His breath was faint.

When emergency personnel quickly hooked Herzog on a glucose-rich IV to replenish his low blood sugar, Herzog's level responded almost immediately.

"I remember when they I was in the ambulance outside," Herzog said. "It was a little rough going in. The paramedic asked, 'How are you feeling?' I remember saying, 'Honestly I don't feel so good. My oxygen mask on my face.'"

Herzog made a full recovery. As a measure of his appreciation, he wrote a letter to the City of Warren commending Dougherty's quick action.

The City Council responded to Dougherty with a commendation during its regular monthly meeting.

"It makes all of us very proud of our police officers, without hesitating to jump to take care of the individual," Warren Mayor Mark Warren said. "That type of moral integrity is what we need."

Phillips added, "Obviously, our police officers are well trained as well as they implement training and potentially allows council to take great advantage of a fine complement of officers employed in the city of Warren."

Rexnord sale close...

product line looking to establish themselves in the Warren area.

"It is not just a company looking to move from point A to point B," he said. "It is an expanded operation."

The former Rexnord building on Main St. in Warren's South Side was vacant since December 3. Rexnord relocated their operations to an Auburn, Ala. plant.

DUHRING RESOURCE COMPANY

600 Market Street
Warren, PA 16365

Phone (814) 723-3221

Fax (814) 723-7950

April 20, 2007

VIA CERTIFIED AND REGULAR MAIL

Mr. Robert Stovall
Acting District Ranger
Bradford Ranger District
29 Forest Service Drive
Bradford, PA 16701

RE: Upcoming Wells on Lots 7, 8 and 9
Sheffield Township, Warren County, Pennsylvania

Dear Mr. Stovall:


I write with respect to the plan of operation for new wells which we submitted to you approximately four weeks ago. Those wells are to be located on Lots 7, 8 and 9 in Sheffield Township, Warren County, Pennsylvania.

At the beginning of this month you telephoned me to advise that Kathleen Morse had submitted a letter of objection to the DEP concerning eight of those wells. You advised that she objects to four wells on Lot 7, one well on Lot 8 and three wells on Lot 9. I requested that you forward me a copy of that letter so I could understand the nature of the Forest Service's objections. You indicated you would see to it that I promptly received a copy.

Over two weeks have now passed and I have not received a copy of the letter. It is obviously impossible for Duhring to respond to Ms. Morse's objections if Duhring is not provided with a copy of those objections. When you telephoned me two weeks ago, I asked why Duhring was not provided a copy of the letter at the same time the letter was provided to the DEP. You advised you thought that would be the better practice. If that is the case, then I inquire: Why do I not yet have a copy of the letter?

Duhring is under a time obligation to complete wells on all three of these lots. Those time obligations are a matter of public record. Please consider the Forest Service as being placed on notice that any delay by the Forest Service in the prompt processing of Duhring's rights to drill wells on these lots will result in a monetary loss to Duhring.

Very truly yours,



Arthur J. Stewart

AJS:lag

cc: Bob Gleason, DEP