

FORCED POOLING HEARING

EDWARDS & HARDING PETROLEUM COMPANY

WELL EH-8, BUCHANAN COUNTY

HEARING DATE, MARCH 28, 1989

KEEN MOUNTAIN OFFICE OF DMME, CONFERENCE ROOM

1:30 P.M.

BOARD MEMBERS PRESENT

Mr. Benny Wampler, Acting Chairman

Mr. Jim Bunn

Dr. Robert Whisonant

3/28/89

Edwards & Harding

Benny Wampler

Tom Fulmer

Diane Davis

MICHAEL L. EDWARDS

Brend L. Swanson

John Gillespie

DMME

DGO

DGO

EAPC

EHPC

Interest Owner

Benny Wampler

Good afternoon, my name is Benny Wampler and I am Assistant Director for Mining for the Virginia Department of Mines, Minerals and Energy. We are here today, the Virginia Oil and Gas Conservation Board, to conduct a forced pooling hearing for the EH-8 well located in the Garden District of Buchanan County, Virginia on the Frances Carlson tract. The hearing has been requested by Edwards & Harding Petroleum Company, operator of the well. The Board members, to my right, Mr. Jim Bunn, to my left is Dr. Robert Whisonant, Mr. Tom Fulmer is the Oil and Gas Inspector for the State and Ms. Davis is the secretary of that office. We will now call on Mr. Michael Edwards and Mr. Brad Swanson who are with the oil company to present their case to the Board for their request for forced pooling. Mr. Edwards...

Mr. Edwards

Thank you Mr. Wampler. I would like to go over the efforts we have made to lease all of the interest owners in the proposed drilling unit. Brad Swanson is the person who has been most directly involved in these efforts and I thought I would go through with Brad what all we have done. What we have here is a proposed 113 acre drilling unit of which approximately 89 acres will be on the Frances Carlson property and 24 acres will be on the P.J. Brown heirs property. We currently have approximately 95.5 percent of the mineral interests under lease in this proposed drilling unit. By the way, I would like to excuse two parties in the proposed forced pooling order. Both of these parties have signed leases subsequent to our application. On Exhibit B of the proposal, number 2, Martha Brown Short and William Short, we received a lease from her and Doris Singhas, number 3, we also received a lease from her. The rest of the owners listed on the order all remain unsigned at this point. Brad you have, your work and your responsibilities have included the lands involved in this drilling unit and the surrounding area?

Mr. Swanson

That is true.

Mr. Edwards

Approximately how much acreage have you been responsible for leasing in this area in the last year or so?

Mr. Swanson

We have leased approximately 1,200 acres.

Mr. Edwards

So you are familiar with the fair market value of drilling rights and mineral interests in this area?

Mr. Swanson

That is true.

Mr. Edwards You gained this knowledge of the fair market value by directly acquiring leases and dealing with the different mineral owners?

Mr. Swanson That and looking through court records to see what other prices have been paid for leases in that area.

Mr. Edwards What is the nature of the ownership of the P.J. Brown property?

Mr. Swanson In that property there are approximately 70 heirs.

Mr. Edwards About how many of them have we signed to date?

Mr. Swanson It would be easier to say the ones we haven't signed. We have signed all but 11 and that includes husbands and wives.

Mr. Edwards And that represent the great majority of the interests in that property?

Mr. Swanson That is true, correct.

Mr. Edwards And these are all undivided interests in an heirship property?

Mr. Swanson Absolutely

Mr. Edwards How did you ascertain the names and addresses of the different interest owners?

Mr. Swanson I started initially in the courthouse identifying P.J. Brown property and from there we contacted several persons who we knew to be owners in that estate. They gave us additional names. Finally, through the efforts of Dr. Oscar Thompson from over at Pikeville Kentucky we were able to get a list of heirs from Jewell Smokeless Coal Company as to how they paid their royalty payments and to whom they paid them.

Mr. Edwards Jewell Smokeless has a coal lease and is actively mining on this same property?

Mr. Swanson That is correct.

Mr. Edwards O.k. and you have conducted a fairly exhaustive search by contacting all of the family members and prepared a pretty complete geneological tree?

Mr. Swanson I think so. I don't think there is anyone that we missed.

- Mr. Edwards Did any of the other coal companies, for example did any of Island Creek's previous work help in identifying the interest owners?
- Mr. Swanson Island Creek did a title abstract in, I believe in 1969, that listed all of the heirs of P. J. Brown at that time. From that list we compared it to the Jewell Smokeless list and did an update from that point.
- Mr. Edwards Approximately how much time would you say we have spent trying to identify and contact each of these interest owners, two months, three months?
- Mr. Swanson It has been exhaustive, I don't really don't know the amount of time. I have been active on this particular estate for better than six months.
- Mr. Edwards O.k. the, could we briefly go over the, let me back up one step. In your opinion do you feel like that we now have contacted each of the interest owners in this property and made an offer to lease them?
- Mr. Swanson Either by telephone or by mail, and all by certified mail.
- Mr. Edwards If I could go through the list of the unsigned people at this point and just briefly go over our efforts to sign them. Number one on Exhibit B is John Robert Mullins. Could you just briefly describe for us your efforts to sign Mr. Mullins.
- Mr. Swanson I contacted Mr. Mullin's office on the 27th of October. I talked to his secretary a Mr. Barnhill. Mr. Mullins was out of town at that time. I again called his office on November 10th, on December 9th, on December 12th I was able to talk to him briefly and tried to set up an appointment. On December 14th I made that same effort. On December 19th I was able to get an appointment.
- Mr. Edwards Had we sent a lease to him by this time?
- Mr. Swanson Prior to that we had sent a certified package to him, yes.
- Mr. Edwards Then subsequent to that in December you met with him in his office.
- Mr. Swanson Subsequent to that December 20th, I just dropped in unannounced and Mr. Mullins was in his office and had little but to see me. He was standing there and no one could tell me he wasn't home. I went in. He had

the certified package on his desk. I opened it for him and went through the material in the package and that was most of our meeting. Mr. Mullins indicated at that time that I could take the package with me and if I didn't he was going to throw it in the trash anyway.

Mr. Edwards Did he indicate to you whether or not he had any interest in signing at that point.

Mr. Swanson He said that he absolutely had no interest in signing a lease with us.

Mr. Edwards Did he give you a reason.

Mr. Swanson I think it is more a political reason within the heirship property. He indicated that at previous times he had wanted things from the other heirs and they had not been cooperative with him.

Mr. Edwards Subsequent to that meeting you had with him in his office in December, have we made any further attempts to contact him.

Mr. Swanson We sent Mr. Mullins another certified letter. At this time we have the certified letter back unpicked up.

Mr. Edwards That was the letter we sent in March.

Mr. Swanson Yes

Mr. Edwards And you have not been able to get directly in contact with him since then.

Mr. Swanson I have called and his secretary is on alert for me I am sure. I do not get through.

Mr. Edwards Moving down the list to the smaller interest owners four through nine, with Marcus C. Brown, did we send her a written offer to lease?

Mr. Swanson We did and we got contact from an attorney, Ms. Brown's attorney, who wanted to see a copy of the lease. We forwarded a copy of the lease to the attorney, subsequent to that we did not hear anything.

Mr. Edwards The other interest owners here, Benjamin Patton Brown?

Mr. Swanson Has an unlisted phone. We sent him a lease on the 23rd of December. We sent him a certified package on

the 16th of February. We have a receipt which we know that he received the package but no other response.

Mr. Edwards: How about E. L. Brown and Delores Brown?

Mr. Swanson: Mr. Brown's phone has been disconnected. We also sent him a package which was returned unaccepted, certified.

Mr. Edwards: Is he...

Mr. Swanson: He is presently in a divorce situation. That may be the reason he didn't pick up any certified mail.

Mr. Edwards: William David Brown and Donna Brown?

Mr. Swanson: An unlisted phone, we sent them the same lease and the same certified notice.

Mr. Edwards: So there have been two written attempts? Mr. Swanson, to each of these people.

Mr. Swanson: To each of these persons, yes.

Mr. Edwards: How about Charles Henry Brown?

Mr. Swanson: I spoke to Charles Henry Brown on the phone on February 15th and I talked with him and he indicated at that time that they would just let things go through the procedures.

Mr. Edwards: Through the forced pooling hearing procedures?

Mr. Swanson: Exactly, and what ever came about would be fine with him.

Mr. Edwards: Virginia Palmer and Robert Palmer

Mr. Swanson: Virginia Palmer I had a long conversation with. She was inclined, my impression was she was inclined to go along with this but each of these other persons we are talking about with the exception of Bob Mullins are sibblings of Ms. Palmer and after speaking with them, in my next conversation with her she said there was nothing she could do. That they would have to just proceed through the hearings.

Mr. Edwards: Thanks Brad, so in your opinion you both through written attempts and through attempts at contacting these people directly, including in some cases meeting with them face to face, you have made a

- bonafide effort to lease their mineral interest in the property?
- Mr. Swanson I think we have exhausted all possibilities.
- Mr. Edwards This is an effort that was successful with over 60 of the other heirs?
- Mr. Swanson Yes, about 82 percent of the total estate.
- Mr. Edwards If I could move on at this point to the determination of fair market value of the mineral interests here. Brad as you previously mentioned, you have quite a bit of local experience in acquisition of mineral interests in this area.
- Mr. Swanson That is true.
- Mr. Edwards What, in your opinion, is the current fair market value of leasing of oil and gas drilling rights in the Garden District of Buchanan County?
- Mr. Swanson Five dollars per year per acre and a 1/8 royalty.
- Mr. Edwards What is the offer that we have been making to these interest owners?
- Mr. Swanson Five dollars per acre per year for a five year lease and 5/32 royalties.
- Mr. Edwards So the royalty interest that we have been offering is in excess of the...
- Mr. Swanson Of what is standard, by 1/32nd.
- Mr. Edwards So even considering the fact that you have been offering a more generous lease than is common you still haven't been able to sign all the interest owners?
- Mr. Swanson That is true.
- Mr. Edwards In your opinion would \$5 and 5/32nd royalty be a fair value for the mineral interest in question here?
- Mr. Swanson I believe that to be true.
- Mr. Edwards We have, our company, Edwards & Harding Petroleum has prepared an AFE an authority for expenditures for the proposed well. The daily AFE was December 4, 1988 but from checking with most of the contractors, the estimated price of costs have not changed materially since then. I personally prepared the AFE so if

anyone has any questions about that I would be more than happy to answer those. We currently estimate the completed well costs of this well to be \$249,475 and dry hole costs would be \$152,475.

Mr. Bunn

Could you give me those numbers again?

Mr. Edwards

Yes sir, completed well costs \$249,475 and dry hole costs \$152,475. This is the only AFE I have got but I can circulate it. The estimated depth of that well is approximately 5,300'.

Mr. Wampler

Mr. Fulmer will make a copy of that and we will receive that as an exhibit. Ms. Davis will so mark that as Exhibit 1.

Mr. Edwards

Should I wait until Tom gets back.

Mr. Wampler

Continue

Mr. Edwards

The way we would like to proceed with the unsigned interest owners at this point in accordance with Virginia Statutes and Regulations, since all of these interest owners are basically unsigned lessors for which and they are on a property which has not previously been leased and is not currently under lease so there are no other oil and gas operators in the unit. In the event that any of the unsigned owners wish to participate we propose that they would participate according to their pro rata interest as shown on Exhibit B of our pooling application. Their cost to participate would be that percentage times \$249,475. We would like to be paid within 15 days of receipt of notice of that. Another option that we would like to propose for the unsigned interest owners to receive a cash consideration for their interest for \$5 per acre and 5/32 royalty which we believe to represent a fair market value for the interest and which is also the value which we have paid to the other interest owners in the heirship property. The other option for an unsigned owner would be for them to be a carried interest owner and we would propose that they face a penalty of 200% of all costs incurred until payout. The contact person for any communications regarding this event would be myself at the address listed on the application, P. O. Box 2404, Abingdon, Virginia. At this point, aside from consideration of how the unsigned interest owners should they elect to participate how their or should they not respond should any of the unsigned interest owners listed on Exhibit B not respond, our preference would be to have them accept the cash consideration of \$5 an acre and a 5/32 royalty this

would greatly simplify all of our lives. The only other addition to that I would like to make is in the event any of the interest owners choose to participate but don't pay within the period provided, that they would be considered to, that that failure to pay their pro rata share of the drilling and completion costs would represent an election to receive the cash consideration of \$5 per acre and a 5/32 royalty. That finishes the presentation that I had prepared. Gentlemen, do you have any questions?

- Mr. Wampler Ms. Davis, have you properly notified everyone of the hearing and confirmed that their notification have been proper.
- Ms. Davis Yes sir, I published it in the paper and I also sent by certified return receipt all parties listed in the permit application and in their Exhibit B.
- Mr. Wampler Thank you. Mr. Edwards, could you state your title and Mr. Swanson's title with your company just for the record please?
- Mr. Edwards Yes sir. I am president of Edwards & Harding Petroleum Company. Mr. Swanson is land agent for the company and his responsibilities include all acquisitions of oil and gas properties in the areas in which we are working.
- Mr. Wampler Thank you. Anything from any of the other members. Tom do you have anything?
- Mr. Fulmer No
- Mr. Wampler Do you wish to say anything sir (speaking to citizen in attendance of hearing)?
- Citizen No
- Mr. Wampler With that, we thank you for your presentation and we will, after the transcript is prepared and our attorney has an opportunity to review a draft order, we will try to promptly give you a decision on this. This hearing is now closed.

ATTENDEES

Mr. Benny Wampler Board Member
Mr. James Bunn Board Member
Dr. Robert Whisonant Board Member
Mr. Tom Fulmer Inspector
Ms. Diane Davis Secretary
Mr. Mike Edwards Edwards & Harding Petroleum
Mr. Brad Swanson Edwards & Harding Petroleum
Mr. Gillespie Citizen

Exhibits Submitted

Exhibit Number 1 AFE

Diane Davis

I certify that this is a true and accurate transcript of the proceedings in front of the Virginia Oil and Gas Conservation Board on March 28, 1989 in the meeting room at teh Keen Mountain Office of the Department of Mines, Minerals and Energy.

Diane Davis
Diane Davis 4/7/89

Exhibit 1
3/28/89

AUTHORITY FOR EXPENDITURES

AFE NO: 88 -
WELL NAME: EH-8, Carlson
DATE: 12/4/88
PREPARED BY: MLE

COUNTY: Buchanan, VA
DISTRICT: Garden
LEASE #: 45-003
TOTAL DEPTH: 5300
TO TEST: Berea

DRILLING INTANGIBLES

	Dry Hole Without Pipe	Completed Well
Drilling:		
Footage: 5,300 Ft @ \$13.25	\$70,225	
Daywork: .5 Day @ \$4,800	\$2,400	
Title & Curative	\$4,000	
Surveys	\$3,000	
Damages	\$1,000	
Permits	\$1,500	\$250
Location	\$7,000	\$1,000
Stone & Stone Trucking	\$1,000	\$1,000
Roadway	\$1,000	\$1,000
Trucking	\$500	\$500
Dozer	\$1,000	\$1,000
Mud & Chemicals & Mud Logger		
Supervision	\$2,500	\$1,500
Logging & perf & Retrievable Frac Plug	\$3,500	\$2,500
Cementing Services:		
Conductor		
Surface	\$7,000	
Production		\$6,000
Stimulation		
1 Zone Frac & 1 Zone Acid		\$20,000
Service Rig		
5 Days @ \$1,000/Day		\$5,000
Extra Labor		\$1,000
Frac Tank Rental		\$1,000
Water Hauling		\$1,000
Welding		\$500
Geological	\$3,000	\$500
Engineering	\$1,500	\$3,500
Hookup Labor		\$1,500
Rental Equipment		\$1,000
Reclamation	\$7,500	
Fixed Expenses	\$2,000	
Administration & Accounting	\$2,500	\$2,500
Office, Phone, Overhead	\$1,500	\$1,500
TOTAL	\$123,625	\$53,750

TANGIBLE EQUIPMENT

Conductor Pipe: Ft @ \$ /Ft	\$700	
Surface Pipe: 2200 Ft @ \$ 8.25/Ft	\$18,150	
Production Casing:		
5,300 Ft @ \$3.50/Ft		\$18,550
Tubing: 5,200 Ft @ \$1.25/Ft		\$6,500
Stock Tanks		
Separator		\$500
Lead Line		\$500
Well Head & Hardware		\$1,500
Misc. Valve Fittings & Subs		\$1,500
Lease Acquisition	\$10,000	
Sales Line: 5,000 Ft @ \$2.00		\$10,000
Metering Equipment		\$4,200
TOTAL TANGIBLE EQUIPMENT	\$28,850	\$43,250

TOTAL DRY HOLE COST	\$152,475	
TOTAL COMPLETION COSTS		\$97,000
TOTAL COMPLETED WELL COST		\$249,475