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VIRGINIA OIL AND GAS BOARD

HEARING OF JULY 19, 1994

9:00 A.M.

AT THE 4-H CENTER, HILLMAN HWY.
ABINGDON, VIRGINIA

Appalachian Court Reporting Services, Inc.

P. O. Box 833

Abingdon, Virginia

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1 July 19, 1994

2 This matter came on to be heard before the Virginia Gas
3 and Oil Board on July 19th, 1994 in the Dickenson Conference
4 Center at the 4-H Center, Abingdon, Virginia pursuant to
5 Section 45.1-361-19.B and 45.1-361-22.B of the Code of
6 Virginia.

7 MR. WAMPLER: We'll call this meeting to order. Good morning.

8 My name is Benny Wampler and I'm Deputy Director for the
9 Department of Mines, Minerals & Energy and Chairman of
10 the Gas and Oil Board. I'll ask the Board members to
11 introduce themselves to you and tell who they represent.

12 (MEMBERS INTRODUCED.)

13 MR. CHAIRMAN: Thank you. The first item on today's agenda,
14 if you're looking at the published agenda of the Board,
15 we're going to move to Item VI. I think the parties
16 requested doing that and it's our understanding that
17 there is no objection to that from the people who have
18 cases before this one.

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3 ITEM VI

4 MR. CHAIRMAN: Item VI is a petition from Equitable Resources
5 Exploration for pooling of a gas well located in the
6 Sandlick District, Haysi Quadrangle of Dickenson County.
7 This is docket number VGOB-94/07/19-0458. We'd ask the
8 parties that wish to address the Board in this matter to
9 come forward at this time and identify yourselves,
10 please.

11 MR. KAISER: Mr. Chairman and members of the Board, I'm Jim
12 Kaiser on behalf of Equitable Resources Exploration.
13 We'll have three witnesses in this matter; Mr. Dennis
14 Baker, Mr. Mike Wilder and Mr. Bob Dahlin. I'd ask at
15 this time that the witnesses be sworn.

16 COURT REPORTER: (swears witnesses.)

17 MR. CHAIRMAN: Are there any others here today that wish to
18 address the Board in this matter? The record will show
19 there are none. You may proceed.

20 MR. KAISER: Mr. Baker will be our first witness.
21

22 DENNIS BAKER

23 a witness who, after having been duly sworn, was examined and
24 testified as follows:
25

1
2 DIRECT EXAMINATION
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4 BY MR. KAISER:

5 Q. Mr. Baker, would you state your full name, who you are
6 employed by and in what capacity?

7 A. Dennis Baker, employed by Equitable Resources Exploration
8 as a leasing supervisor.

9 Q. Do your responsibilities include the lands involved here
10 and in the surrounding area?

11 A. Yes. That's correct.

12 Q. Are you familiar with Equitable's application for the
13 establishment of a drilling unit and pooling order for
14 EREX well number V-2266 dated June 17th, 1994?

15 A. Yes, I am.

16 Q. Is Equitable seeking to force pool the drilling rights
17 underlying the drilling and spacing unit as depicted at
18 Exhibit A of the application?

19 A. Yes.

20 Q. Does Equitable own drilling rights in the unit involved
21 here?

22 A. Yes, we do.

23 Q. Does the proposed unit depicted at Exhibit A include all
24 acreage within 2,640 feet, that is a 1,320 foot radius,
of proposed well V-2266?

1 A. Yes.

2 Q. What is the interest of Equitable in this unit?

3 A. Currently we have 98.9756 percent leased.

4 Q. Are you familiar with the ownership of drilling rights of
5 parties other than Equitable underlying this unit?

6 A. Yes, I am.

7 Q. What is the interest of the others?

8 A. The unleased interest at this time is 1.025 percent.

9 Q. Are all unleased parties set out at Exhibit B?

10 A. Yes, they are.

11 Q. Prior to filing the application were efforts made to
12 contact each of the respondents in an attempt to work out
13 an agreement regarding the development of the units
14 involved?

15 A. Yes.

16 Q. Subsequent to the filing of the application have you
17 continued to reach an agreement with the respondents
18 listed at Exhibit B?

19 A. Yes.

20 Q. As a result of these efforts have you acquired other
21 leased from any of the respondents listed at Exhibit B as
22 unleased owners?

23 A. No, I have not.

24 Q. Were any efforts made to determine if the individual
25 respondents were living or deceased and their whereabouts

1 and if deceased were efforts made to determine the names
2 and the addresses and the whereabouts of the successors
3 to any deceased individual respondent?

4 A. Yes.

5 Q. Were reasonable and diligent efforts made and sources
6 checked to identify these unknown heirs, to include
7 sources such as deed records, probate records, accessors
8 records and treasurers records?

9 A. Yes.

10 Q. In your professional opinion was due diligence exercised
11 to locate each of the respondents named herein?

12 A. Yes, they were.

13 Q. Are the addresses set out in Exhibit B to the application
14 the last known addresses for the respondents?

15 A. Yes.

16 Q. With the exception of those parties which you are hereby
17 dismissing from this proceeding are you requesting this
18 Board to force pool all other unleased interest listed at
19 Exhibit B?

20 A. Yes. That's correct.

21 Q. Does Equitable seek to force pool the drilling rights of
22 each individual respondent if living and if deceased the
23 unknown successor or successors to any deceased individ-
24 ual respondent?

25 A. Yes.

1 Q. Is Equitable seeking to force pool the drilling rights of
2 the person designated as trustee if acting in capacity of
3 trustee and if not acting in such capacity is Equitable
4 seeking to force pool the drilling rights of the success-
5 or of such trustee?

6 A. Yes.

7 Q. Are you familiar with the fair market value of drilling
8 rights here and in the surrounding area?

9 A. Yes, I am.

10 Q. Would you advise the Board as to what those are?

11 A. A \$5 per acre consideration, a five year term with a one-
12 eighth royalty.

13 Q. Did you gain your familiarity by acquiring oil and gas
14 leases and other agreements involving the transfer of
15 drilling rights in units involved here and in the
16 surrounding area?

17 A. Yes.

18 Q. In your opinion do the terms you have testified to
19 represent the fair market value of and a fair and
20 reasonable compensation to be paid for drilling rights
21 within this unit?

22 A. Yes.

23 Q. Based on that and as to respondents who have not volun-
24 tarily agreed to pool do you recommend that the respond-
25 ents listed at Exhibit B who remain unleased be allowed

1 the following options with respect to their ownership
2 interest within the unit: 1) Participation. 2) A cash
3 bonus of \$5 per net mineral acre plus a one-eighth of
4 eight-eighths royalty. 3) In lieu of a cash bonus and
5 one-eighth of eight-eighths royalty share in the opera-
6 tion of the well on a carried basis as a carried operator
7 under the following conditions: Such carried operator
8 shall be entitled to the share of production from the
9 tracts pooled accruing to his interest exclusive of any
10 royalty or overriding royalty reserved in any leases,
11 assignments thereof or agreements relating thereto of
12 such tracts but only after the proceeds allocable to his
13 share equal A) 300 percent of the share of such costs
14 allocable to the interest of the carried operator of the
15 leased tract or portion thereof or B) 200 percent of such
16 costs allocable to the interest of the carried operator
17 of an unleased tract or portion thereof?

18 A. That is correct.

19 Q. Do you recommend the order provide that elections by
20 respondent be in writing and sent to the applicant at
21 Equitable Resources Exploration, 1989 East Stone Drive,
22 PO Box 1983, Kingsport, Tennessee, 37662-1983, attention
23 Dennis Baker, Regulatory?

24 A. Yes.

25 Q. Should this be the address for all communications with

1 the applicant concerning the force pooling order?

2 A. That is correct.

3 Q. Do you recommend the force pooling order provide that if
4 no written election is properly made by a respondent then
5 such respondent should be deemed to have elected to a
6 cash royalty option in lieu of participation?

7 A. Yes.

8 Q. Should the unleased respondents be given 30 days from the
9 date of the order to file written elections?

10 A. That's correct.

11 Q. If an unleased respondent elects to participate should
12 that respondent be given 45 days to pay applicant for
13 respondent's proportionate share of well costs?

14 A. That's correct.

15 Q. Does the applicant expect a party electing to participate
16 to pay in advance that party's share of completed well
17 costs?

18 A. Yes.

19 Q. Should the applicant be allowed 60 days following the
20 recordation date of the order and thereafter annually on
21 that date until production is achieved to pay or tender
22 any cash bonus becoming due under the force pooling
23 order?

24 A. That's correct.

25 Q. Do you recommend the force pooling order provide that if

1 a respondent elects to participate but fails to pay their
2 proportionate share of well costs satisfactory to the
3 applicant for payment of well costs then their election
4 to participate should be treated as having been withdrawn
5 and void and such respondent should be treated just as if
6 no initial election had been filed under the force
7 pooling order?

8 A. That is correct.

9 Q. Do you recommend the force pooling order provide that
10 where a respondent elects to participate but defaults in
11 regard to payment of well costs any cash sum becoming
12 payable to such respondent be paid within 60 days after
13 the last on which such respondent could have paid or made
14 satisfactory arrangements for payment of well costs?

15 A. Yes.

16 Q. Do you recommend the force pooling order provide that if
17 a respondent refuses to accept any payment due including
18 any payment due under said order or any payment of
19 royalty or cash bonus or said payment cannot be paid to a
20 party for any reason or there is a title defect in the
21 respondent's interest that the operator create an escrow
22 account for the respondent's benefit until the money can
23 be paid to the party or until the title defect is cured
24 to the operator's satisfaction?

25 A. That's correct.

1 Q. Who should be named the operator under the force pooling
2 order?

3 A. Equitable Resources Exploration.

4 MR. KAISER: I have no further questions of this witness at
5 this time, Mr. Chairman.

6 MR. CHAIRMAN: Any questions, members of the Board, of this
7 witness?

8 (Witness stands aside.)

9 MR. CHAIRMAN: You may call your next witness.

10 MR. KAISER: I would like to call Mr. Wilder as our next
11 witness.

12

13

MIKE WILDER

14 a witness who, after having been previously sworn, was
15 examined and testified as follows:

16

17

DIRECT EXAMINATION

18

19

BY MR. KAISER:

20

Q. Mr. Wilder, I'll remind you that you've been sworn. If
21 you would state your full name for the record, who you
22 are employed by and in what capacity?

23

A. My name is Michael Arnold Wilder. I am the manager of
24 land administration for Equitable Resources Exploration.

25

Q. Do your responsibilities include the lands involved here

1 and in the surrounding area?

2 A. Yes.

3 Q. Are you familiar with EREX's application for the estab-

4 lishment of a drilling unit and pooling order for EREX

5 well number V-2266 dated June 17th, 1994?

6 A. Yes, I am.

7 Q. Are you aware that tract three is listed on Exhibit B in

8 proposed unit for V-2266 as leased to Virginia Gas

9 Company?

10 A. Yes.

11 Q. Did you contact Virginia Gas Company to ascertain whether

12 they may want to lease, assign or farm-out their interest

13 or whether they would want to participate in V-2266?

14 A. Yes, I did. On June 9th of 1994 I spoke with Mike

15 Edwards of Virginia Gas and offered Virginia Gas the

16 opportunity to either farm-out, assign or participate

17 with 1.05 percent Holly Tract and he declined at that

18 time.

19 MR. KAISER: No further questions of this witness at this

20 time, Mr. Chairman.

21 MR. CHAIRMAN: Any questions, members of the Board?

22 MR. EVANS: I have just a real quick one. When you say he

23 declined --

24 THE WITNESS: He declined to participate or farm-out or

25 assign.

1 MR. EVANS: Okay. Thank you.

2 MR. CHAIRMAN: Anything further?

3 (Witness stands aside.)

4 MR. CHAIRMAN: You may call your next witness.

5 MR. KAISER: I'd call Mr. Bob Dahlin.

6

7 ROBERT A. DAHLIN, II

8 a witness who, after having been previously sworn, was
9 examined and testified as follows:

10

11 DIRECT EXAMINATION

12

13 BY MR. KAISER:

14 Q. Mr. Dahlin, please state your full name for the record,
15 who you are employed by and in what capacity?

16 A. My name is Robert A. Dahlin, II and I'm employed as an
17 operations specialist for EREX.

18 Q. And you've previously testified before the Virginia Gas
19 and Oil Board and your qualifications as an expert
20 witnesses have previously been accepted by the Board?

21 A. Yes, sir, I have.

22 Q. Do your responsibilities include the lands involved here
23 and in the surrounding area?

24 A. They do.

25 Q. Are you familiar with the proposed exploration and

1 development of the unit involved here under the appli-
2 cant's proposed plan of development?
3 A. Yes, sir.
4 Q. What is the total depth of the proposed initial well
5 under the applicant's plan of development?
6 A. 4,725 feet.
7 Q. Will this be sufficient to penetrate and test the common
8 sources of supply in the subject formation?
9 A. Yes, sir, it will.
10 Q. Is the applicant requesting the force pooling of conven-
11 tional gas reserves not only to include the designated
12 formations but any other formations excluding coal
13 formations which may be between those formations design-
14 ated from the surface to the total depth drilled?
15 A. Yes, sir. That's correct.
16 Q. Will this initial well be at a legal location?
17 A. It is a legal location.
18 Q. What are the estimated reserves of the unit?
19 A. We've estimated 400 million cubic foot of gas at this
20 drill site.
21 Q. Are you familiar with the well costs for the proposed
22 initial unit under applicant's plan of development?
23 A. Yes, sir.
24 Q. Has an AFE been reviewed, signed and submitted to the
25 Board?

1 A. Yes, sir, it has.

2 Q. Was this AFE prepared by an engineering department
3 knowledgeable in the preparation of AFEs and knowledge-
4 able in regard to well costs in this area?

5 A. Yes, sir.

6 Q. Does this AFE represent a reasonable estimate of the well
7 costs for the proposed unit well under the applicant's
8 plan of development?

9 A. It does.

10 Q. Could you please advise the Board of both the dry hole
11 costs and completed well costs for V-2266?

12 A. The dry hole costs are \$131,950 and the completed well
13 costs are \$290,250.

14 Q. Do these costs anticipate a multiple completion?

15 A. They do.

16 Q. Does the AFE include a reasonable charge for supervision?

17 A. Yes, sir.

18 Q. Mr. Dahlin, in your professional opinion will the
19 granting of the application be in the best interest of
20 conservation, prevention of waste and protection of
21 correlative rights?

22 A. Yes, sir.

23 MR. KAISER: Mr. Chairman, I have no further questions of this
24 witness at this time.

25 MR. CHAIRMAN: Any questions, members of the Board? Did you

1 state the estimated reserves?

2 THE WITNESS: Yes, I did. 400 million cubic feet.

3 MR. CHAIRMAN: Any other questions?

4 (Witness stands aside.)

5 MR. CHAIRMAN: Do you have anything further?

6 MR. KAISER: Nothing further at this time.

7 MR. EVANS: I move that we grant the petition.

8 MR. MASON: Second.

9 MR. CHAIRMAN: We have a motion and a second. Any further
10 discussion? All in favor signify by saying yes. (ALL
11 AFFIRM.) Opposed say no. (NONE.) Unanimous approval.

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3 ITEM I

4 MR. CHAIRMAN: We'll go back to Item I on the agenda. This is
5 a petition from Equitable Resources Exploration for
6 pooling of drilling unit for V-2378. This is docket
7 number VGOB-94/05/17-0446. We'd ask the parties that
8 wish to address the Board in this matter to come forward
9 at this time.

10 MR. KAISER: Mr. Chairman and members of the Board, I'm Jim
11 Kaiser on behalf of Equitable Resources Exploration. Our
12 witnesses in this matter will be Mr. Dennis Baker and Mr.
13 Bob Dahlin.

14 MR. CHAIRMAN: Are there any others that wish to address the
15 Board in this matter? The record will show there are
16 none. You may proceed.

17 MR. KAISER: Mr. Baker will be our first witness.

18 DENNIS BAKER

19 a witness who, after having been duly sworn, was examined and
20 testified as follows:

21
22 DIRECT EXAMINATION

23
24 BY MR. KAISER:

25 Q. Mr. Baker, would you state your full name, who you are

1 employed by and in what capacity?

2 A. My name is Dennis Baker. I'm employed by Equitable
3 Resources Exploration as a leasing supervisor.

4 Q. Do your responsibilities include the lands involved here
5 and in the surrounding area?

6 A. Yes. That's correct.

7 Q. Are you familiar with Equitable's application for the
8 establishment of a drilling unit and pooling order for
9 BEX well number V-2378 dated April 15th, 1994?

10 A. Yes, I am.

11 Q. Is Equitable seeking to force pool the drilling rights
12 underlying the drilling and spacing unit as depicted at
13 Exhibit A of the application?

14 A. Yes, we are.

15 Q. Does Equitable own drilling rights in the unit involved
16 here?

17 A. Yes, we do.

18 Q. Does the proposed unit depicted at Exhibit A include all
19 acreage within 2,640 feet, that is a 1,320 foot radius,
20 of proposed well V-2378?

21 A. That's correct.

22 Q. What is the interest of Equitable in this unit?

23 A. Presently we have 99.872 percent leased.

24 Q. Are you familiar with the ownership of drilling rights of
25 parties other than Equitable underlying this unit?

1 A. Yes.

2 Q. What is the unleased interest at this time?

3 A. .128 percent.

4 Q. Are all unleased parties set out at Exhibit B?

5 A. Yes, they are.

6 Q. Prior to filing the application were efforts made to
7 contact each of the respondents in an attempt to work out
8 an agreement regarding the development of the unit
9 involved?

10 A. Yes.

11 Q. Subsequent to the filing of the application have you
12 continued to reach an agreement with the respondents
13 listed at Exhibit B?

14 A. Yes, we have.

15 Q. As a result of these efforts have you acquired other
16 leased from any of the respondents listed at Exhibit B as
17 unleased owners?

18 A. Yes, we have.

19 MR. KAISER: Mr. Chairman, at this time we'd like to go back
20 for the record and correct the testimony on the interest
21 of Equitable at the time of application.

22 Q. (Mr. Kaiser continues.) Mr. Baker, could you restate
23 that, please?

24 A. Yes. At the time of application the 99.872 percent was
25 the interest that we had leased. At the time of the

1 hearing we've acquired an additional lease which gives us
2 99.936 percent leased. The interest previously stated as
3 being unleased was .128 percent. The newly acquired
4 lease gives us at the time of the hearing the unleased
5 interest being a .064 percent.

6 MR. CHAIRMAN: And you're correcting Exhibit B, Page 2 of 2?

7 MR. KAISER: Yes, sir. At this time we'd like to hand out the
8 amended exhibit. I'm sorry.

9 MR. EVANS: You've corrected the percentages. How about the
10 acreages, are you doing those corrections, too?

11 THE WITNESS: Yes. The acerages are shown corrected on
12 Exhibit B.

13 MR. EVANS: Thank you.

14 MR. CHAIRMAN: We'll recieve those now.

15 (PAUSE.)

16 Q. (Mr. Kaiser continues.) Mr. Baker, were any efforts made
17 to determine if the individual respondents were living or
18 deceased or their whereabouts and if deceased were
19 efforts made to determine the names and the addresses and
20 whereabouts of the successors to any deceased individual
21 respondent?

22 A. Yes, they were.

23 Q. Were reasonable and diligent efforts made and sources
24 checked to identify and locate these unknown heirs to
25 include sources such as deed records, probate records,

1 accessors records and treasurers records?

2 A. Yes.

3 Q. In your professional opinion was due diligence exercised

4 to locate each of the respondents named herein?

5 A. Yes, they were.

6 Q. Are the addresses set out in amended Exhibit B to the

7 application the last known addresses for the respondents?

8 A. Yes.

9 Q. With the exception of those parties which you are hereby

10 dismissing from this proceeding are you requesting this

11 Board to force pool all other unleased interest listed at

12 amended Exhibit B?

13 A. Yes.

14 Q. Does Equitable seek to force pool the drilling rights of

15 each individual respondent if living and if deceased the

16 unknown successor or successors to any deceased individ-

17 ual respondent?

18 A. That's correct.

19 Q. Is Equitable seeking to force pool the drilling rights of

20 the person designated as trustee if acting in capacity of

21 trustee and if not acting in such capacity is Equitable

22 seeking to force pool the drilling rights of the success-

23 or of such trustee?

24 A. Yes.

25 Q. Are you familiar with the fair market value of drilling

1 rights here and in the surrounding area?

2 A. Yes, I am.

3 Q. Would you advise the Board as to what those are?

4 A. A \$5 per acre consideration, a five year term, a one-

5 eighth royalty.

6 Q. Did you gain your familiarity by acquiring oil and gas

7 leases and other agreements involving the transfer of

8 drilling rights in units involved here and in the

9 surrounding area?

10 A. Yes.

11 Q. In your opinion do the terms you have testified to

12 represent the fair market value of and a fair and

13 reasonable compensation to be paid for drilling rights

14 within this unit?

15 A. Yes.

16 MR. KAISER: Mr. Chairman, at this time I'd ask the Board if

17 we could incorporate the election testimony as was taken

18 in VGOB-94/07/17-0458 earlier this morning.

19 MR. CHAIRMAN: Any objections? All right. That's incorpor-

20 ated.

21 Q. (Mr. Kaiser continues.) Mr. Baker, do you recommend the

22 force pooling order provide that if a respondent refuses

23 to accept any payment due including any payment due under

24 said order or any payment or royalty or cash bonus or

25 said payment cannot be paid to a party for any reason or

1 there is a title defect in a respondent's interest that
2 the operator create an escrow account for the respond-
3 ent's benefit until the money can be paid to the party or
4 until the title defect is cured to the operator's
5 satisfaction?

6 A. That's correct.

7 MR. CHAIRMAN: Could I ask you to speak up just a little bit.

8 MR. KAISER: Okay. I'm sorry.

9 Q. (Mr. Kaiser continues.) Who should be named the operator
10 under the force pooling order?

11 A. Equitable Resources Exploration.

12 MR. KAISER: I have no further questions of this witness at
13 this time, Mr. Chairman.

14 MR. CHAIRMAN: Any questions, members of the Board, of this
15 witness?

16 (Witness stands aside.)

17 MR. CHAIRMAN: You may call your next witness.

18

19

ROBERT A. DAHLIN, II

20 a witness who, after having been previously sworn, was
21 examined and testified as follows:

22

23

DIRECT EXAMINATION

24

25

BY MR. KAISER:

- 1 Q. Mr. Dahlin, please state your full name for the record,
2 who you are employed by and in what capacity?
- 3 A. Robert A. Dahlin, II and I'm employed as an operations
4 specialist for EREX.
- 5 Q. And you've testified before the Virginia Gas and Oil
6 Board on many occasions and your qualifications as an
7 expert witnesses have previously been accepted by the
8 Board?
- 9 A. That's correct.
- 10 Q. Do your responsibilities include the lands involved here
11 and in the surrounding area?
- 12 A. Yes, sir.
- 13 Q. Are you familiar with the proposed exploration and
14 development of the unit involved here under the appli-
15 cant's proposed plan of development?
- 16 A. Yes, sir, I am.
- 17 Q. What is the total depth of the proposed initial well
18 under the applicant's plan of development?
- 19 A. 5,700 feet.
- 20 Q. Will this include formations consistent with the well
21 work permit now pending before the DMME?
- 22 A. Yes, sir.
- 23 Q. Will this be sufficient to penetrate and test the common
24 sources of supply in the subject formation?
- 25 A. Yes, sir, it will.

- 1 Q. Is the applicant requesting the force pooling of conven-
2 tional gas reserves not only to include the designated
3 formations but any other formations excluding coal
4 formations which may be between those formations design-
5 ated from the surface to the total depth drilled?
- 6 A. Yes, sir, we are.
- 7 Q. Will this initial well be at a legal location?
- 8 A. It will.
- 9 Q. What are the estimated reserves of this unit?
- 10 A. We estimate the reserves to 400 million cubic feet. at
- 11 Q. Are you familiar with the well costs for the proposed
12 initial unit well under applicant's plan of development?
- 13 A. Yes, sir.
- 14 Q. Has an AFE been reviewed, signed and submitted to the
15 Board?
- 16 A. Yes, sir, it has.
- 17 Q. Was the AFE prepared by an engineering department
18 knowledgeable in the preparation of AFEs and knowledge-
19 able in regard to well costs in this area?
- 20 A. Yes, sir.
- 21 Q. Does this AFE represent a reasonable estimate of the
22 well's cost for the proposed unit well under the appli-
23 cant's plan of development?
- 24 A. It does.
- 25 Q. Could you please state both the dry hole costs and

1 completed well costs for this well?

2 A. The dry hole costs are \$143,550 and the completed well
3 costs are \$244,950.

4 Q. Do these costs anticipate a multiple completion?

5 A. Yes, sir.

6 Q. Does the AFE include a reasonable charge for supervision?

7 A. Yes, sir.

8 Q. Mr. Dahlin, in your professional opinion will the
9 granting of the application be in the best interest of
10 conservation, prevention of waste and protection of
11 correlative rights?

12 A. Yes, sir. It would.

13 MR. KAISER: Mr. Chairman, I have no further questions of this
14 witness at this time.

15 MR. CHAIRMAN: Any questions, members of the Board?

16 MR. FULMER: Mr. Chairman, as a matter of record, we sent you
17 copies of what they have submitted. We received an
18 affidavit of mailing on July 8th and they have a number
19 of parties listed in that one which is not listed in this
20 one.

21 MR. CHAIRMAN: In the amended Exhibit B or --

22 MR. FULMER: In the amended Exhibit B they've submitted today
23 which is the same as the one they submitted in May.

24 However, we received an affidavit of mailing in July.

25 MR. CHAIRMAN: What date in July?

1 MR. FULMER: July 8th. I mean, it may just be a point of
2 clarity, but we have a number of parties listed in this
3 affidavit of mailing that doesn't show up here.

4 MR. KAISER: I can clarify that, Mr. Chairman.

5 MR. CHAIRMAN: Please.

6 MR. KAISER: This matter was originally set as you can see
7 from the docket from May and was continued on two
8 occasions because we were continuing to do some title
9 work on the properties within the unit. We originally
10 -- as of the July 8th mailing the determination of
11 ownership originally showed some interest in the Fred
12 Hamm heirs. So we notified them based upon that which is
13 what Mr. Fulmer is talking about. The title work has
14 since been completed. We have determined that the
15 interest in that tract does lie in VICC as we had
16 originally determined with the May application. We have
17 notified the Hamm heirs of that and I would like to give
18 the Board some letters that we have prepared and sent to
19 the Hamm heirs explaining how we determined that the
20 ownership lied in VICC rather than in them and make these
21 part of the record, if I could.

22 MR. CHAIRMAN: All right.

23 MR. KAISER: So they've been notified of the hearing and are
24 not here today.

25 (PAUSE.)

1 MR. CHAIRMAN: You's submitting this as an exhibit today?
2 MR. KAISER: Yes. We'll make that Exhibit C, if we could, Mr.
3 Chairman.
4 MR. CHAIRMAN: Any other questions? Do you have anything
5 further?
6 MR. KAISER: Nothing further at this time, Mr. Chairman.
7 MR. EVANS: Mr. Chairman, I move that we grant the petition.
8 MR. CHAIRMAN: We have a motion to approve.
9 MR. MASON: Second.
10 MR. CHAIRMAN: A motion to approve and a second. Any further
11 discussion? All in favor signify by saying yes. (ALL
12 AFFIRM.) Opposed say no. (NONE.) Unanimous approval.
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ITEM II and III

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3 MR. CHAIRMAN: The next item on the agenda is a petition from
4 Virginia Gas Company for establishing a drilling unit and
5 force pooling of a conventional gas drilling unit for EH-
6 112 located in the Rock Lick District. This is docket
7 number VGOB-94/06/21-0450. We'd ask the parties that
8 wish to address the Board in this matter to come forward
9 at this time.

10 MR. MULLINS: Mr. Chairman, my name is Tom Mullins with the
11 Street Law Firm. I'm here today representing Virginia
12 Gas Company and with me is Mr. Brad Swanson of Virginia
13 Gas Company on EH-112. At this time we'd like to ask
14 that the EH-112 application be continued on the docket.
15 We're trying to work out an agreement with the other
16 parties and see if we can't dispose it without having to
17 have a hearing. So we would like to ask at this time
18 that the matter be continued on the docket -- both this
19 one and the 116, the next two items.

20 MR. CHAIRMAN: Are there any parties here today that wish to
21 address the Board in this matter? Any members of the
22 Board have any objection to continuing -- what you're
23 asking is the EH-112 and EH-116?

24 MR. MULLINS: That's correct.

25 MR. CHAIRMAN: EH-116 is docket number VGOB-94/06/21-0451.

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Are there any parties here that wish to address the Board in this matter? There are none. Does the Board have any objection to continuing these two items? Then they are continued.

MR. MULLINS: Thank you, Mr. Chairman.

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3 ITEM IV

4 MR. CHAIRMAN: The next item on the agenda is a petition from
5 Virginia Gas Company for force pooling of coalbed methane
6 drilling unit for EH-43 located in the Nora Coalbed Gas
7 Field. This is docket number VGOB-94/06/21-0452. We'd
8 ask the parties that wish to address the Board in this
9 matter to come forward at this time.

10 MR. MULLINS: Mr. Chairman, again my name is Tom Mullins and
11 with me is Brad Swanson.

12 MR. CHAIRMAN: Are there any others that wish to address the
13 Board in this matter? The record will show there are
14 none. You may proceed.

15 MR. MULLINS: If I could, I'd like to have Mr. Swanson sworn.

16 COURT REPORTER: (Swears witness.)

17 BRAD SWANSON

18 a witness who, after having been duly sworn, was examined and
19 testified as follows:

20
21 DIRECT EXAMINATION

22
23 BY MR. MULLINS:

24 Q. Would you please state your name?

25 A. My name is Brad Swanson.

- 1 Q. Mr. Swanson, what do you do for a living?
- 2 A. I'm a land agent employed by Virginia Gas Company.
- 3 Q. How long have you been doing that?
- 4 A. Since 1987.
- 5 Q. For Virginia Gas Company?
- 6 A. Correct.
- 7 Q. Have you testified before this Board on previous occasions?
- 8
- 9 A. Yes, sir, I have.
- 10 Q. Has your testimony been accepted by this Board as expert
- 11 testimony?
- 12 A. That is true.
- 13 Q. You're here today on unit EH-43, is that correct?
- 14 A. That is correct.
- 15 Q. Are you familiar with the application that was filed by
- 16 Virginia Gas Company concerning EH-43?
- 17 A. I am.
- 18 Q. Is Virginia Gas Company seeking to force pool the
- 19 interest in the unit identified as EH-43 which is
- 20 identified on the plat filed as part of the application?
- 21 A. We are.
- 22 Q. Have you sent notice to the interested parties as
- 23 required by statute?
- 24 A. We have.
- 25 Q. Have copies of the mail receipts been filed with the

1 Board?

2 A. They have.

3 Q. What's the size of this unit?

4 A. The unit is 58.77 acres.

5 Q. How much of the unit is outstanding?

6 A. 8.265 percent.

7 Q. How much of the coal interest do you have leased?

8 A. 100 percent.

9 Q. What are Virginia Gas Company's interests?

10 A. 91.735 percent.

11 Q. Do you want to ask the Board to dismiss any parties that

12 have been leased subsequent to the filing of your

13 application?

14 A. We do. The James L. White coal trust, we would ask they

15 be excused at this time. They have signed a lease with

16 us.

17 Q. So who are you asking to be force pooled?

18 A. Eagle Coal Company.

19 Q. Who owns the drilling rights on this unit?

20 A. Virginia Gas Exploration Company.

21 Q. Is this a coalbed methane well?

22 A. It is.

23 Q. What formations are you asking that the Board force pool?

24 A. All those formations shown in our application.

25 Q. Is that Paragraph 2.1 of your application?

- 1 A. That is correct.
- 2 Q. What is the proposed depth of this well?
- 3 A. 1,875 feet.
- 4 Q. Have you attempted to contact each party concerning an
5 agreement with Virginia Gas Company prior to your
6 application?
- 7 A. We have.
- 8 Q. What were the results?
- 9 A. We were not successful with Eagle Coal.
- 10 Q. Were leases sent or other contacts made in negotiation?
- 11 A. They were.
- 12 Q. As an exhibit to the application is there a list naming
13 the potential owners and lessees not leased?
- 14 A. There is.
- 15 Q. And that is Exhibit D, is that correct?
- 16 A. Correct.
- 17 Q. Did your company use due diligence in attempting to find
18 all the potential owners?
- 19 A. We did find all the owners.
- 20 Q. Whose interest and drilling rights are you asking the
21 Board to force pool?
- 22 A. Those of Eagle Coal Company.
- 23 Q. Has this well been permitted?
- 24 A. Yes.
- 25 Q. Has it been drilled?

1 A. Yes.

2 Q. Is a drilling cost report attached to the application as
3 Exhibit H?

4 A. I believe that to be true.

5 Q. And you're asking that Virginia Gas be named as the
6 drilling operator in unit EH-43, is that correct?

7 A. That's correct.

8 Q. Does any amount need to be escrowed by the Board?

9 A. That portion to Eagle Coal or Poka Energy being the
10 conflict of interest there.

11 Q. Concerning the coalbed methane for those interest --
12 there's no legal determination as to who owns it, is that
13 correct?

14 A. That's correct.

15 Q. What is the estimated production of the life of the well?

16 A. 90 MCF.

17 Q. Does Virginia Gas Company have a blanket bond to cover
18 reclamation?

19 A. We do.

20 MR. MULLINS: I don't have anymore questions of this witness.

21 MR. CHAIRMAN: Any questions, members of the Board?

22 MR. MASON: You testified a minute ago that the owner of the
23 drilling rights for this was Virginia Gas Exploration.

24 THE WITNESS: That's correct.

25 MR. MASON: How does that relate to Virginia Gas Company?

1 THE WITNESS: Virginia Gas Exploration is a wholly owned
2 subsidiary of Virginia Gas Company.

3 MR. MASON: But this application is by Virginia Gas Company.
4 Who are you asking to be named as the operator?

5 Q. (Mr. Mullins continues.) You're asking for Virginia Gas
6 Company to be designated as the operator, correct?

7 A. Right. And then Virginia Gas Exploration would be a
8 contractor for Virginia Gas Company.

9 Q. Is there an agreement between Virginia Gas Exploration
10 Company and Virginia Gas Company concerning the drilling
11 rights?

12 A. There is.

13 Q. Does the essence of that agreement -- I know we don't
14 have the agreement before us, but is the essence of that
15 agreement that Virginia Gas Exploration Company will
16 agree to allow Virginia Gas Company to contractually use
17 or to exercise drilling rights on the unit?

18 A. That would be true.

19 MR. MASON: What name is the permit issued in?

20 MR. MULLINS: I don't have that information in front of me.

21 MR. FULMER: Virginia Gas Company.

22 MR. LEWIS: What's the elevation of this well?

23 MR. MULLINS: We'll have to check in the application.
24 (PAUSE.) Elevation 2,050.85.

25 MR. CHAIRMAN: Any other questions?

1 MR. EVANS: I thought I heard testimony that you're going to
2 escrow because you have conflicting claimants?
3 MR. MULLINS: I think that there is the Eagle Coal and the
4 Poka coal interest as far as who owns the coalbed methane
5 gas. I think we're seeking to force pool those
6 interests.
7 MR. EVANS: Escrow?
8 MR. MULLINS: Yes, sir.
9 MR. EVANS: Exhibit E says conflicting ownership claims.
10 There are no conflicting claimants being escrowed?
11 MR. MULLINS: It was amended. I apologize.
12 MR. EVANS: That answers my question.
13 MR. MULLINS: I apologize. I should have pointed that out.
14 MR. CHAIRMAN: Other questions?
15 (Witness stands aside.)
16 MR. CHAIRMAN: Do you have anything further, Mr. Mullins?
17 MR. MULLINS: No, sir.
18 MR. EVANS: Let's talk about the AFE.
19 MR. MULLINS: We have a cost drilling report. It's a drilled
20 well. So we've got the --
21 MR. EVANS: So these are actual costs?
22 MR. MULLINS: Yes.
23 MR. EVANS: In that case I make a motion that we grant the
24 petition.
25 MR. CHAIRMAN: We have a motion to grant the petition.

1 MR. MASON: So moved.

2 MR. CHAIRMAN: A motion and a second. Any further discussion?

3 All in favor signify by saying yes. (ALL AFFIRM.)

4 Opposed say no. (NONE.) Unanimous approval. We'll take
5 a five minute break.

6 MR. MULLINS: We'd ask that EH-47 be dismissed because
7 everybody's been signed on that -- or we'll withdraw it.

8 MR. CHAIRMAN: This is docket number VGOB-94/06/21-0453. Are
9 there any parties here that wish to address the Board in
10 this matter?

11 MR. MULLINS: Tom Mullins for Virginia Gas Company.

12 MR. CHAIRMAN: Mr. Mullins is here. The record will show
13 there are none. We have a request to dismiss. Any
14 objection. Item V is dismissed.

15 (AFTER A BRIEF RECESS, THE HEARING CONTINUED AS FOLLOWS:)

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ITEM VII

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3 MR. CHAIRMAN: The next item on the agenda is a petition from
4 Equitable Resources Exploration for pooling of a gas well
5 for V-2824. This is docket number VGOB-94/07/19-0459.
6 We'd ask the parties that wish to address the Board in
7 this matter to come forward at this time and identify
8 yourselves, please.

9 MR. KAISER: Mr. Chairman and members of the Board, I'm Jim
10 Kaiser on behalf of Equitable Resources Exploration.
11 We'd like to make a motion to the Board at this time to
12 continue VGOB-94/07/19-0459 to the August docket.

13 MR. CHAIRMAN: Are there any other parties present that wish
14 to address the Board in this matter? The record will
15 show there are none. Any objection, members of the
16 Board, to a continuation? It's continued.
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1 ITEM VII

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3 MR. CHAIRMAN: The next item on the agenda is a petition from
4 Equitable Resources Exploration for VC-3237. This is
5 docket number VGOB-94/07/19-0460. We'd ask the parties
6 that wish to address the Board in this matter to come
7 forward at this time and identify yourselves, please.

8 MR. KAISER: Mr. Chairman and members of the Board, I'm Jim
9 Kaiser on behalf of Equitable Resources Exploration. Our
10 witnesses in this matter will be Mr. Don Hall and Mr.
11 Bob Dahlin. Mr. Don Hall has not previously been sworn
12 today.

13 COURT REPORTER: (Swears witness.)

14 MR. CHAIRMAN: Are there any others that wish to address the
15 Board in this matter? The record will show there are
16 none. You may proceed.

17
18 DON HALL

19 a witness who, after having been duly sworn, was examined and
20 testified as follows:

21
22 DIRECT EXAMINATION

23
24 BY MR. KAISER:

25 Q. Mr. Hall, would you please state your full name for the

1 record, who you are employed by and in what capacity?
2 A. Don Hall with Equitable Resources Exploration as district
3 landman.
4 Q. Have your qualifications as an expert witness previously
5 been accepted by this Board
6 A. Yes, sir.
7 MR. KAISER: Mr. Chairman, I'd like to offer Mr. Hall as an
8 expert witness on this matter.
9 MR. CHAIRMAN: Any objections? You may proceed.
10 Q. (Mr. Kaiser continues.) Do your responsibilities include
11 the lands involved here and in the surrounding area?
12 A. Yes, they do.
13 Q. Are you familiar with the application for the location
14 exception for well number VC-3237 and the relief re-
15 quested?
16 A. Yes, I am.
17 Q. Is this a preexisting location?
18 A. Yes, it is.
19 Q. Would you indicate for the Board the ownership of the oil
20 and gas underlying well VC-3237?
21 A. Pine Mountain Oil & Gas owns 65.92 percent of the unit,
22 Pykes Resource 17.15 percent, and Mae Smith (Inaudible.)
23 126.93 percent.
24 Q. Does Equitable Resources Exploration have an oil and gas
25 lease covering all this tract?

1 A. Yes, we do.

2 Q. Have all the mineral owners been notified of today's
3 hearing?

4 A. Yes.

5 Q. Mr. Hall, in your own words based on your experience
6 could you explain to the Board why a location exception
7 is being sought for VC-3237?

8 A. I have an exhibit here that Jim will give you. VC-3237
9 was initially drilled by Clinchfield Coal Company in the
10 early fifties, I believe. In the last ten years or so
11 we've re-completed or reworked the well and put it on
12 line and made a conventional producing well out of it.
13 At this time we'd like to convert that conventional well
14 to a coalbed methane well by plugging it back to the coal
15 formations and stimulating the coal seams. The well is
16 outside the window, but it's existing. So there's -- we
17 would just like to reenter that well.

18 Q. Mr. Hall, could you elaborate on the ownership of the
19 area surrounding the unit for 3237 -- the oil and gas
20 ownership?

21 A. We have a coal well in the unit to the north of that
22 unit. The units to the east are Pine Mountain Oil & Gas
23 feed properties -- oil and gas properties which we have
24 leased. The units to the west, northwest and southwest
25 are a combination of Pine Mountain tracts and a variety

1 of tracts that we have leased from others.

2 Q. In other words, there's not a correlative rights issue
3 particularly when you speak of the unit to the east which
4 is the unit that this location exception would affect?

5 A. No, sir.

6 MR. KAISER: I have no further questions of this witness at
7 this time, Mr. Chairman.

8 MR. CHAIRMAN: Questions, members of the Board?

9 (Witness stands aside.)

10 MR. CHAIRMAN: You may call your next witness.

11 MR. KAISER: Mr. Dahlin is my next witness. I'll remind him
12 that he's previously been sworn.

13
14 ROBERT A. DAHLIN, II

15 a witness who, after having been previously sworn, was
16 examined and testified as follows:

17
18 DIRECT EXAMINATION

19
20 BY MR. KAISER:

21 Q. Mr. Dahlin, please state your full name for the record,
22 who you are employed by and in what capacity?

23 A. My name is Robert A. Dahlin, II and I'm employed as an
24 operations specialist for EREX.

25 Q. Mr. Dahlin, are you familiar with the application for

1 the location exception filed by EREX for well number VC-
2 3237?

3 A. Yes, sir, I am.

4 Q. Could you summarize for the Board from EREX's prospective
5 the purpose of this application?

6 A. The purpose of this application is to obtain a variance
7 where we are not adhering to the 300 foot off-set in the
8 field rules. As Mr. Hall explained, this is an existing
9 well that was drilled in 1950 and we intend to convert it
10 to a coalbed methane well.

11 Q. Would you kind of elaborate on the re-completion process
12 and some of the technical aspects of converting this
13 well?

14 A. Yes, sir. Also Mr. Hall had stated we had attempted to
15 re-complete this well. That is true. The production
16 prior to any attempt by us to work on the well had
17 resulted in over BCF being produced from the Big Lyon
18 Formation. We attempted to drill deeper to the Big Lyon
19 and have subsequently plugged it back because of hole
20 conditions. The well has been abandoned since 1980.
21 There is an existing cement plug above the lost drill
22 stream pools, a packer in the hole, and it's been sitting
23 since 1980, temporarily abandoned. We intend to come
24 back up to the Red Shells and place another plug, pull
25 the existing eight inch casing, log the well to identify

1 where the coals exist and then rerun a string of five and
2 a half, cement it and complete as usual for the coal
3 seams.

4 Q. Mr. Dahlin, in the event this location exception is not
5 granted would you project the estimated loss of reserves
6 that would result in waste?

7 A. At a minimum we feel that there's 250 million cubic feet
8 of gas in place in this location. That's an estimate.
9 We have very recently completed a couple of other wells
10 and that may be revised upward. So there is at a minimum
11 250 million cubic feet.

12 Q. That's a conservative estimate?

13 A. Yes, sir. That's right.

14 Q. What is the total depth of the proposed initial well
15 under the applicant's plan of development?

16 A. I believe we've got it at 2,100 feet.

17 Q. And that will include formations consistent with the well
18 work permit?

19 A. Yes, sir.

20 Q. Mr. Dahlin, in your opinion will the granting of this
21 location exception be in the best interest of protecting
22 coal interest, preventing waste, protecting correlative
23 rights and maximizing recovery of gas reserves underlying
24 VC-3237?

25 A. Yes, sir.

1 MR. KAISER: I have no further questions of this witness at
2 this time, Mr. Chairman.

3 MR. CHAIRMAN: Questions, members of the Board?

4 MR. MASON: What's the status of the coal in the seams you
5 anticipate producing?

6 THE WITNESS: They're currently behind an un-cemented eight
7 five-eighths stream.

8 MR. MASON: Have they been mined or not mined?

9 THE WITNESS: I'm not aware of any mining right here. This is
10 in our PC-1 area. It's basically an infield well
11 surrounded by all of our development and I'm not familiar
12 with --

13 MR. MASON: I didn't know what mining activity, if any, was in
14 the area.

15 MR. HALL: None.

16 MR. MASON: None.

17 MR. HALL: Not in the seams that we'll be stimulating and I
18 don't believe there's any mining in the upper seams

19 MR. MASON: There are no mine plans on file within this area?

20 MR. DAHLIN: Not to my knowledge. We are very active in the
21 area with the Clinchfield people and in my meetings with
22 them it has never even come up as an issue in this
23 specific area. It's very heavily drilled and this is of
24 no concern to them apparently.

25 MR. MASON: Do you all have the consent to stimulate from

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rehearing. There is four location exceptions, one pooling application, and one request for a modification. So we'll have a total of ten items for the August meeting.

MR. CHAIRMAN: All right. If there is nothing further this hearing is closed.

(End of Proceedings for July 19, 1994.)

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3 CERTIFICATE

4 COMMONWEALTH OF VIRGINIA
5
6 COUNTY OF WASHINGTON

7 I, Deborah J. Bise, Notary Public in and for the Common-
8 wealth of Virginia, at Large, do hereby certify that the
9 foregoing is a true transcript of the proceedings had in the
10 Virginia Gas and Oil Hearing on July 19, 1994; that all of
11 said proceeding was electronically recorded and was reduced to
12 writing by me and that said transcript is true and correct to
13 the best of my ability.

14 I further certify that I am not a relative, counsel or
15 attorney for either party, or otherwise interested in the
16 outcome of this action.

17 GIVEN under my hand this 2nd day of August, 1994.
18

19 Deborah J. Bise
20 DEBORAH J. BISE
21 NOTARY PUBLIC

22 My commission expires September 30, 1996.
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