

**DEPARTMENT OF MINES,
MINERALS & ENERGY**

VIRGINIA GAS AND OIL BOARD

**TRANSCRIPTS FOR CALENDAR
YEAR 1995**

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VIRGINIA OIL AND GAS BOARD

HEARING OF JANUARY 17, 1995

9:10 A.M.

AT THE SOUTHWEST VIRGINIA

4-H CENTER

ABINGDON, VIRGINIA

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January 17, 1995

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2 This matter came on to be heard on this the 17th day of
3 January, 1995 before the Virginia Gas and Oil Board at the
4 Southwest Virginia 4-H Center, Hillman Highway, Abingdon,
5 Virginia pursuant to Section 45.1-361.19.B and 45.1-361.22.B
6 of the Code of Virginia.
7

8 MR. CHAIRMAN: Good morning. My name is Benny Wampler and I'm
9 Chairman of the Gas & Oil Board. I'll ask the Board
10 members to introduce themselves starting with Max.
11 (BOARD MEMBERS INTRODUCED.)
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ITEM I

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3 MR. CHAIRMAN: The first item on today's agenda is the Board
4 on its own motion will consider an amendment to a
5 supplemental order to withdraw funds from escrow pertain-
6 ing to pooled unit V-2532. This is docket number VGOB-
7 92/12/15-0396. I'll ask Sandra Riggs to address the
8 Board in this matter.

9 MS. RIGGS: There is a copy under your tab number one of the
10 application to withdraw the funds of Margaret Nola
11 Hollingsworth in VGOB-93/12/15-0296. This is a convent-
12 ional unit. She was an unknown and unlocatable. The
13 operator has filed the amended supplemental order
14 identifying her and giving her address and spelling out
15 her percentage of interest. I prepared the application
16 for withdrawal of funds at her request and forwarded it
17 to you. She has now executed and returned the applica-
18 tion and seeks to get whatever funds are on deposit with
19 the escrow agent out of escrow and then from this point
20 forward the operator will pay directly to her any
21 royalties that come due under the pooling order. I
22 think under the Board's previous decision they wanted to
23 see each of these as they come through in order to see
24 how they go and so forth. So it needs approval for
25 entry of the order that is contained at the bottom of the

1 second page which then directs the escrow agent to pay
2 out the money and directs the operator from this point
3 forward to pay direct to Ms. Hollingsworth her funds.

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

5 MR. EVANS: Mr. Chairman, I make a motion that we approve the
6 entry of the order.

7 MR. LEWIS: I'll second it.

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

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

10 Opposed say no. (NONE.) It's a unanimous approval.

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ITEM II

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3 MR. CHAIRMAN: The next item on the agenda is the Virginia Gas
4 & Oil Board will receive a semi-annual report on the
5 escrow account established by the Board order from
6 Tazewell National Bank, escrow agent for the Board. We'd
7 ask the representatives to come forward. Good morning.
8 I'd ask that you introduce yourselves to the Board,
9 please.

10 MR. KING: I'm Bill King with Tazewell National Bank. We're
11 now known as Premiere Bank due to a name change. I have
12 with me Chris Levy who is an investment officer with our
13 trust department. I'm going to pass out a form that we
14 typically prepare for the Board showing a summary for the
15 deposits and earnings and so forth for the escrow
16 account. (Pause.) As previously arranged, the staff
17 receives semi-annually a complete report of the -- what
18 we call the sub-accounts or the accounts for the units.
19 What we have in front of us is the summary -- this is by
20 quarter really from the beginning still; the receipts,
21 income, fees and balance. I think it's important to
22 point out is from the third quarter of 1994 -- the
23 quarter ended September 30. You see a fairly substantial
24 jump in the income and this primary due at that point to
25 increased deposits in the funds. During that quarter we

1 have purchased US Treasury securities at a higher yield
2 than the money market funds in accordance with previous
3 discussions and reports to the Board, but the earnings
4 since these are instruments that pay the interest at the
5 end of the term as Treasury bills or every six months as
6 Treasury notes even as of the end of the last quarter,
7 12/31/14, those earnings have not begun to kick in yet.
8 So like I said, the net for the third quarter was about
9 the same as the earnings for the fourth quarter. And the
10 minus \$242 figures you see with the asterisks, that
11 represents accrued interest paid on the purchase of a
12 Treasury note. In effect, on a Treasury note, as you may
13 be aware, when you purchase that you pay for the six
14 month period. You pay the interest that is accrued up
15 till the time of the purchase. At the next six month
16 interest payment you get that back. You get the entire
17 six months. So if you look at the next -- well, the next
18 page is actually a list of holdings at 12/31 which shows
19 that we do have in the account now two \$100,000 Treasury
20 bills and a \$100,000 Treasury note. The total cost shown
21 which is the first column of the numbers, \$631,770.96,
22 ties into the balance on the first page in the last
23 number in the far right column. Those figures are
24 rounded, \$631,771. Two things I'd like to illustrate
25 which we discussed, before making any purchases other

1 than Treasury notes is the market value of the fund is
2 different, is slightly lower than the cost. And that is
3 due to the US Treasury note. Again, the market value for
4 these investments will fluctuate with interest rates by
5 holding the maturities to a fairly short, intermediate
6 term. This Treasury note is due at the end of August of
7 1996 which is a little over one year and a half. At that
8 point we'll receive par. So we're really not even
9 allocating to the various accounts any difference in
10 market value. We're treating everything as a money
11 market or CD for book purposes. I just wanted to point
12 that out. And then the reason for the final page -- on
13 the second page you see the yield showing only 3.84.
14 That's because this report did not pick up an estimated
15 income for the Treasury bill. So on the third page
16 there's a holding report that's actually as of January
17 10th. So the numbers are slightly different. These
18 numbers probably include some deposits in the early part
19 of this month, but it shows what the average yields are
20 and it also shows that the estimated annual income --
21 this is gross income -- is over \$35,000. If we take the
22 last two quarters on the first page as far as the income
23 on that basis, you know, the annual income might be
24 somewhere around \$21,000 based on the money market. So
25 the purchase of the Treasury has substantially increased

1 the income and really without any increase in risk.
2 Again, as long as we -- our risk would increase if we
3 bought bonds that were longer, that were out five years
4 or more. Then even though the escrow moneys may be here
5 that long we don't know. So that's why we're keeping
6 these maturities fairly short. Are there any questions
7 on the report or any other -- we noted that the deposits
8 had been picking up. The third quarter was a very large
9 quarter and then the fourth quarter dropped down again.

10 MR. CHAIRMAN: Any questions, members of the Board, on this
11 report? If there are no questions we thank you very
12 much.

13 MR. KING: Thank you all.
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ITEM III

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3 MR. CHAIRMAN: The next item on the agenda is a petition from
4 Equitable Resources Exploration for a rehearing of docket
5 number VGOB-93/03/16-0345 for V-2691 to issue an order
6 curing any notice or jurisdictional defects in regard to
7 the 30 day notice consideration. This is today's docket
8 number VGOB-94.08/16-0461. We'd ask the parties that
9 wish to address the Board in this matter to come forward
10 at this time.

11 MR. KAISER: Mr. Chairman and members of the Board, I'm Jim
12 Kaiser on behalf of Equitable Resources Exploration. We
13 ask once again that this matter be continued to next
14 month's docket. As I have been doing for the past
15 several months I'll -- because I know the Board has an
16 interest in this particular matter I'll give you an
17 update of sorts. We are within two sentences within one
18 paragraph of settling this thing. So hopefully we'll be
19 able to go forward with this part of the hearing next
20 month. I fully anticipate that we'll get that taken care
21 between now and February 20th.

22 MR. CHAIRMAN: A request to continue. Any questions? All
23 right. It will be continued to next month. Thank you.
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3 ITEM IV

4 MR. CHAIRMAN: The next item on the agenda is a petition from
5 Ratliff Gas Company for an order establishing a drilling
6 and forced pooling of coalbed methane gas drilling unit
7 identified as U-19 in the Oakwood Field. This is docket
8 number VGOB-94/10/24-0475. We'd ask the parties that
9 wish to address the Board in this matter to come forward
10 at this time. If you will introduce yourselves, please.

11 MR. RATLIFF: I'm Wyatt Ratliff, president of Ratliff Gas.

12 MR. MULLINS: Tom Mullins with the Street law firm from
13 Grundy, Virginia here on behalf of Ratliff Gas Company.

14 MR. PRUITT: Thomas Pruitt, Robinson and Cecil Pruitt from
15 Grundy, Virginia on behalf of Layman Wyatt, trustee.

16 MR. SWARTZ: Mark Swartz on behalf of Buchanan Production
17 Company and Island Creek Coal Company.

18 MR. CHAIRMAN: Mr. Mullins.

19 MR. MULLINS: This matter was presented to the Board at the
20 last regular meeting. The Board asked us to provide some
21 additional information for the application and to make it
22 complete. We have the additional information here that
23 has been mailed out to the parties entitled to receive
24 notice and I'll hand those out to the Board at this time.
25 (Pause.) We've already presented all the remaining
testimony at the last hearing. Unless the Board wants us

1 to go over that testimony again I don't anticipate --
2 didn't plan on presenting that evidence again to the
3 Board. If the Board would like Mr. Ratliff to testify as
4 to the documents just handed out I'll be happy to do
5 that. Otherwise, it's our feeling that this additional
6 information should comply with the Board's request at the
7 last hearing.

8 MR. CHAIRMAN: If you will, go ahead and tell us what you've
9 given us for the record.

10 MR. MULLINS: All right, sir. Do you want Mr. Ratliff to do
11 that or would you just rather me make a presentation?

12 MR. CHAIRMAN: Which ever you prefer.

13 MR. MULLINS: At the last hearing it was the Board's desire to
14 have a break-down as to the potential percentage owner-
15 ships pursuant to the various Code sections and regulat-
16 ions and also there was a concern about the well cost
17 estimate presented. What Mr. Ratliff has done is he's
18 gone out and gotten estimates from -- I think it was
19 Norhorn Well Drilling as to the cost of the well drill-
20 ing. He's also gone out and done a break-down as to the
21 percentage ownerships within the unit as set forth in
22 Exhibit D which I've handed out which is covered by a
23 cover letter dated January 11, 1994. It's our position
24 that this complies with the Board's request made at the
25 last hearing and should bring the application in line.

1 The letter says January 11, 1994 but it should have been
2 1995. It was a typographical error.

3 MR. CHAIRMAN: Mr. Pruitt, do you have any comments?

4 MR. PRUITT: One question. I wonder whether the presented
5 Exhibit D that's titled "unleased owners, potential
6 owners of methane gas and the break-down of percentages"
7 does that include a listing of any people that were not
8 previously presented to the Board in your application.
9 Are there any additional people on that list?

10 MR. MULLINS: I don't know that I understand the question.

11 MR. PRUITT: Does this list have people on it that are not
12 part of your application that's already on file?

13 MR. MULLINS: According to Mr. Ratliff the GG and HH individ-
14 uals purchased property at the time of the application or
15 subsequent to the application was filed. So they've been
16 added on to the list. They have received notice is my
17 understanding. Is that correct?

18 MR. RATLIFF: Yes, they have.

19 MR. PRUITT: Other than that change the list is the same as
20 that set forth in your application?

21 MR. MULLINS: GG and HH.

22 MR. CHAIRMAN: Mr. Swartz.

23 MR. SWARTZ: The only comment I would have with regard to
24 Exhibit D which I saw for the first time today is
25 normally I would expect to see the acreage and interests

1 related to specific tracts on the plat and I don't see
2 that here. That's really the only comment I have. The
3 reason I assume that some of these people -- net acreage
4 within the unit interests is actually an undivided
5 interest in a larger tract and you can't really tell.
6 MS. RIGGS: The division of interests that would be applicable
7 to any parties interest within the 80 acre drilling unit,
8 is that what this percentage --
9 MR. RATLIFF: Yes, ma'am.
10 MS. RIGGS: If one wanted to reflect participation, for
11 example, you would take the percentage shown in the
12 column here and multiply it times the well costs to come
13 up with any particular party's participation cost?
14 MR. MULLINS: Correct. That's my understanding of the way it
15 was done.
16 MS. RIGGS: So the percentages set forth here are what is
17 commonly referred to as the division of interest within
18 the 80 acre unit?
19 MR. RATLIFF: Yes, ma'am.
20 MR. CHAIRMAN: Any questions, members of the Board?
21 MR. EVANS: I've got one question. Why are Luther and Milly
22 Meadows and Buchanyon Vestment listed if they have no
23 acreage within the unit and no interest within the unit?
24 MR. RATLIFF: I can answer that, sir. These two parcels are
25 right against the boundary line of unit U-18.

1 MR. MULLINS: U-19.

2 MR. RATLIFF: U-19. I'm sorry. I'm getting old and senile
3 here. You'll have to excuse me. Anyway, the property
4 joins it and after further study I thought it was better
5 to list them and then not have property than to leave
6 them out.

7 MR. EVANS: That's fine.

8 MR. RATLIFF: And after further study they did not have any
9 property in the unit U-19.

10 MR. MULLINS: We could ask that they be dismissed really.

11 MR. RATLIFF: Yes.

12 MR. MULLINS: They were listed mainly to make sure we gave
13 notice to everybody.

14 MR. EVANS: One other questions real quickly. On Exhibit D
15 also, oil and gas leasehold ownership, Page 1, number
16 four at the first. Is there an A --

17 MR. MULLINS: That's another typographical error. It should
18 have been changed to an A.

19 MR. EVANS: Okay. I asked because that changes all your
20 letters all the way down obviously. Everything backs up
21 or your designations do. No problem. I was just making
22 sure you didn't leave somebody out on the end of a page.

23 MR. CHAIRMAN: In your application in Exhibit D you had -- you
24 have now added Yukon Pocahontas Coal Company, is that
25 correct? Is that another one that's been added?

1 MR. MULLINS: I don't think so. They were on there on the
2 original application as oil and gas fee ownership
3 interests.
4 MR. CHAIRMAN: You just changed the designation.
5 MR. MULLINS: They also are coal owners is our understanding.
6 So we listed them twice actually in this amended
7 Exhibit D. I also have another hand-out. (Pause.)
8 MR. CHAIRMAN: Other questions, members of the Board? Do you
9 have anything further, Mr. Mullins?
10 MR. MULLINS: No, sir.
11 MR. CHAIRMAN: Do you have any summary comments that you'd
12 like to make to the Board?
13 MR. MULLINS: I think we did our talking last time.
14 MR. CHAIRMAN: Mr. Pruitt, do you have anything?
15 MR. PRUITT: We simply reiterate our concern that all parties
16 aren't before the Board through notice and that is all,
17 Mr. Chairman.
18 MR. CHAIRMAN: Mr. Swartz.
19 MR. SWARTZ: As I recall there were four issues on the table
20 last time we were here. I think that Mr. Ratliff has
21 certainly addressed two of them. One was well costs.
22 The concern the last time, I believe, was that none of
23 the cost information submitted to the Board was specific
24 or appeared to specific to this well. I think that
25 problem's been resolved, though. With regard to title at

1 least we have a percentage in the unit assigned to
2 everybody. So I think that that issue which was an
3 outstanding question last time has been resolved. The
4 two other issues that have not been addressed this
5 morning -- just to remind you that one of them is still a
6 concern. One is a safety question. We talked some about
7 the fact that this mine is in the process of being
8 sealed, that about 50 percent of the shafts have been
9 sealed. It's reasonable to anticipate an increase in
10 pressure once that sealing is complete and I had request-
11 ed last time that in the event this application is
12 approved at some point in time that the matter be
13 referred back to Mr. Fulmer's office for him to take
14 another look at safety. When this permit was issued the
15 mine was not in the process of being sealed. So I think
16 circumstances have changed here which would potentially
17 impact on pressures experienced by this well and I would
18 request that in the event this application is approved
19 that the permit situation be referred back to Mr. Fulmer
20 to consider the circumstances. The fourth issue which I
21 think was on the table last time which has certainly not
22 been addressed this morning and still remains a major
23 league problem as far as I'm concerned with regard to
24 this application is the fact that this is a gob well. I
25 think Mr. Ratliff is a pretty straight forward guy. He

1 testified quite clearly when he was here last time that
2 this is a gob well. And it is a gob well. I submitted
3 an exhibit the last time when we were here, a two page
4 exhibit. It was a portion of the Beatrice Pocahontas
5 mine. It showed the location of this well which is right
6 in almost the middle from a width standpoint, not a
7 length standpoint, of a mined out longwall panel in the
8 Beatrice Mine. Mr. Pruitt asked this morning if we have
9 any additional people in Exhibit D. The point being when
10 were we here the last time the only people we had in
11 Exhibit D were people in the 80 acre unit. If we don't
12 have any additional people we're still in an 80 acre unit
13 and we have not addressed the interests of other people
14 in this longwall panel. Just to kind of refresh your
15 recollection as to my position last time, neither Oakwood
16 I or Oakwood II -- Oakwood I certainly doesn't apply
17 because it applies to frack wells. Oakwood II in theory
18 applies to this application. We've got a gob well in a
19 longwall panel and although the mine is in the process of
20 being closed it's not closed yet. So I guess it's active
21 gob. The appropriate unit here, at least for allocation
22 purposes, is the collection of units which intersect this
23 panel. The whole concept of Oakwood II is you allocate
24 production from panels to a group of units on a percent-
25 age basis and to the extent you need to pool that

1 collection of units you need to do it. And it's obvious
2 that we don't know anything about title beyond the one
3 unit that intersects this part of the panel that we're
4 talking about today. We need to know what's going on
5 with the rest of it. In addition I think we're aiming at
6 a moving target here. I mean, at some point in the
7 foreseeable future this well is going to be sealed. If
8 it's sealed Oakwood II isn't going to apply and another
9 unit is going to have to be created. To summarize, I
10 don't have a real problem with the cost information. I
11 mean, we needed a number and this certainly doesn't look
12 like an unreasonable number. The particular fee -- the
13 unit we're talking about I don't have a problem with
14 that. I assume they've worked on it. But I think the
15 two issues that remain are safety from the standpoint of
16 this needs to go back to Mr. Fulmer if it gets back on
17 track and secondly, the Board needs to look very careful-
18 ly at this because we're not talking about right size
19 unit here or (Inaudible.) Only a portion of this
20 production is going to be allocated to this unit and
21 what's going to happen to the rest. That's all.

22 MR. MULLINS: Two things. First, the safety question is not
23 before the Board really as part of this application.
24 That's something Mr. Fulmer will have to deal with as he
25 does with all wells on a continuing basis. So I don't

1 think that's properly laid before the Board at this
2 proceeding. Insofar as his statement as to the charact-
3 erization of the well, it meets all the statutory and
4 regulatory guidelines. It's our position the Board's own
5 procedural rules state that the application is presumed
6 valid. There's been no factual evidence to contradict
7 anything on the points concerning the application itself
8 and it's our position that the application is valid as
9 it's presented to the Board and absent to any evidence to
10 the contrary aside from arguments from counsel. But
11 aside from there being no evidence to the contrary it's
12 our position the Board should act favorably upon Ratliff
13 Gas Company's application.

14 MR. CHAIRMAN: Questions, members of the Board? Mr. Ratliff,
15 do you intend -- and I know you may have talked about
16 this before, but do you intend to use this gas for any
17 purpose other than for yourself? Do you intend to market
18 the gas?

19 MR. RATLIFF: I intend to market the gas.

20 MR. KELLY: Just to follow up on that, what are your intent-
21 ions as far as marketing the gas? I mean, do you have
22 some kind of immediate plan or -- looking to the question
23 of if you are approved as the operator of this 80 acre
24 unit what are your intentions as far as the protection of
25 the rights of the other interests in the unit? And your

1 intentions as far as marketing the gas and producing the
2 well to the benefit of all the interests in the unit as
3 the basis for my question what are your intentions? Do
4 you have immediate plans or long range plans or how
5 immediately -- how soon can you expect to see results of
6 that.

7 MR. MULLINS: Maybe if I can ask him a few questions I can
8 bring it out. Who have you been speaking with concerning
9 trying to get the gas to market?

10 MR. RATLIFF: I have talked with Mr. Randy Albert of Consol of
11 with the Pocahontas Gas Partnership.

12 MR. MULLINS: Have you entered into any formal agreements with
13 any of these individuals?

14 MR. RATLIFF: Verbally we have. We've talked about it and
15 they're interested in purchasing the gas from me. And
16 the last time I got to talk with Mr. Albert about it they
17 were waiting for it to be pooled. We've got about a half
18 a mile of line to run. That will take some time. We've
19 got to go under the railroad with it. That will take
20 some more time. So I'm projecting within six months time
21 we can have it marketed.

22 MR. CHAIRMAN: Do you dispute the introduction of the map last
23 month that Mr. Swartz introduced about producing from the
24 gob and -- was there any questions on that that you might
25 have from the last meeting?

1 MR. MULLINS: The only question I have is there was nobody to
2 authenticate the map. So I don't know that it was
3 properly introduced to the Board as being fact of the
4 matter. Regardless of the introduction of that map or
5 that plat of the well plan, again it's just our position
6 that we've met all the guidelines and all the require-
7 ments of the Board.

8 MR. CHAIRMAN: Other questions?

9 MR. KELLY: Once again, Mr. Chairman, one question related to
10 the potential future conversion of this sealed gob area.
11 What are your intentions there? If this is approved
12 today what are your intentions in the future when this
13 becomes a sealed gob area?

14 MR. MULLINS: I don't know that Mr. Ratliff has gotten -- he's
15 been trying so hard to get past this hurdle I'm not sure
16 he's got any hard and fast plans at this point to file
17 another application. If it's required I'm sure he'll do
18 whatever the Board is going to require of him to comply
19 with whatever your regulations are. As far as getting
20 anything in order right now, no, he hasn't drafted a new
21 application or done anything like that.

22 MS. RIGGS: Just so that I understand since I'm the one that's
23 going to have to go somewhere and draft an order if this
24 is approved, what we're talking about here is an Oakwood
25 II active gob which will extend until such time as we are

1 dealing with a sealed gob area. Obviously since it's not
2 -- it hasn't isolated the panel but is merely a portion
3 of the panel the sealed gob area is going to be greater
4 than what we're talking about here which is going to
5 create a situation where there's more than one operator
6 within the sealed gob. That transition is very important
7 in terms of what the Board does because normally these
8 pooling orders -- I mean, they're progressive before,
9 during and after mining and we're already after mining
10 and in the process of sealing. So we're talking about a
11 real short term situation here and I just don't want
12 there to be a misunderstanding that if we're going
13 forward on an Oakwood II active gob that probably isn't
14 even going to stay active gob for six months until you
15 can get to the point of production there is a timing
16 issue here that I am concerned about is what I'm saying.
17 How are we going to go to the next phase of this thing or
18 how is the Board going to approve this so that it flows
19 in the way that the Board has acted in the past?

20 MR. MASON: I think in addressing that problem that perhaps
21 whatever action the Board takes that it should be a
22 condition of this -- if the petition is approved that the
23 petitioner notify the Board or the Chairman of the Board
24 at such time as it has any knowledge of the actual
25 sealing of the gob that affects this well. I mean, I

1 don't know. Would that come to the Board's attention or
2 the Inspector's attention in the ordinary course of
3 events?

4 MR. FULMER: They wouldn't come to my attention.

5 MR. MASON: I don't know who it would be appropriate to
6 notify, but it seems to me that the triggering event
7 between the unsealed and sealed gob should be -- there
8 should be notification either to this Board or to the Gas
9 & Oil Inspector so that we can see where we stand. Would
10 that solve your problem?

11 MS. RIGGS: I think from the testimony it's 50 percent sealed
12 now and in the process of -- I don't know what Mark said
13 how many months till that sealing process would be
14 complete. That's in the testimony from last month's
15 hearing and a mention of it today. So I think that
16 process is occurring as we speak and that's what raises
17 my concern.

18 MR. MASON: That's what I mean. Will Mr. Ratliff have
19 knowledge of when it's sealed because that's actually a
20 mining operation?

21 MS. RIGGS: I think the only way he'll have knowledge is his
22 pressures are going to shoot up and then that was the
23 safety flip side of the same question.

24 MR. MASON: I understand that. The fact is if he doesn't
25 have a market for this gas when they seal it all they may

1 have a rocket launch site instead of a well.

2 MS. RIGGS: Well, therein lies the dilemma that I think has
3 been presented as I understand it. I just want to make
4 sure that when the order gets entered we're clear on what
5 we're saying here.

6 MR. CHAIRMAN: Other questions?

7 MR. KELLY: Mr. Chairman, let me throw one more question out
8 referring back to Mr. Swartz's earlier comments. Even in
9 the current situation in an active gob unit you have one
10 unit producing from the entire active gob area in that
11 mined out panel. So how do you account for the interests
12 of the other owners and the other units that are connect-
13 ed to that panel? Your well and your unit is drawing gas
14 from that whole area and it seems to me that there needs
15 to be some kind of an allocation process to account for
16 that.

17 MR. MASON: Mr. Chairman, at the potential expense of covering
18 something on the ground that I wasn't here can I inter-
19 ject one questions?

20 MR. CHAIRMAN: Sure.

21 MR. MASON: Are there any other VVHS or wells in the panels
22 drained by this well?

23 MR. MULLINS: I'm sure there's VVHS. I don't know if there
24 are active VVHS or not. I would doubt it, but I don't
25 know.

1 MR. SWARTZ: I'd like to testify that I'm advised that there's
2 no production out of that mine.
3 MR. MASON: Pardon?
4 MR. SWARTZ: I'm advised there is no production out of that
5 mine.
6 MR. MASON: Out of this panel or mine?
7 MR. SWARTZ: Mine, including the panel. We don't have any
8 production at all.
9 MR. EVANS: That wasn't the question. Are there any other
10 VVHs --
11 MR. SWARTZ: Oh, sure there are.
12 MR. EVANS: Okay. Thank you.
13 MR. SWARTZ: Now, when I look at this panel on the map I have
14 I don't see another VVH in this particular panel but in
15 adjacent panels.
16 MR. EVANS: That's fine.
17 MR. MASON: Yeah. All I'm trying to determine is is this well
18 going to be draining the entire panel or is there going
19 to be other VVHs and/or well draining additional gas out
20 of the same panel.
21 MR. SWARTZ: The answer to that is no.
22 MR. MASON: Thank you. I'm sorry, Bill.
23 MR. KELLY: Oh, that's fine.
24 MR. CHAIRMAN: Other questions?
25 MR. LEWIS: I make a motion to grant the application.

1 MR. CHAIRMAN: We have a motion to approve. Is there a
2 second?
3 MR. EVANS: I'll second that.
4 MR. CHAIRMAN: We have a motion and a second. Any further
5 discussion? All in favor signify by saying yes. (TWO
6 AFFIRM.) Opposed say no. (ONE DENIES.)
7 MR. MASON: I abstain on the basis that I wasn't here for the
8 hearing.
9 MR. CHAIRMAN: Yes. The motion is approved.
10 (AFTER A BRIEF RECESS, THE HEARING CONTINUED AS FOLLOWS:)
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ITEMS V & VI

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3 MR. CHAIRMAN: Please come back to order. The next item on
4 today's agenda is a petition from Equitable Resources
5 Exploration for an order pooling interests in a convent-
6 ional gas drilling unit identified as V-2033. This is
7 docket number VGOB-94/12/13/-0487. We'd ask the parties
8 that wish to address the Board in this matter to come
9 forward at this time.

10 MR. KAISER: Mr. Chairman and members of the Board, I'm Jim
11 Kaiser on behalf of Equitable Resources Exploration. At
12 this time we'd like to request that we switch the order
13 of Items VI and V in that they both involved the same
14 well, that being V-2033. The forced pooling was continu-
15 ed from the December docket in that we need a location
16 exception for the well and we'd ask the Board that we
17 have the hearing on the location exception prior to the
18 forced pooling application.

19 MR. CHAIRMAN: Okay. I'll call docket number VGOB-95/01/17-
20 0491.

21 MR. KAISER: Thank you, Mr. Chairman. In conjunction with
22 that I've got an exhibit I'd like to pass out before we
23 get started. (Pause.) Our witnesses in this matter will
24 be Mr. Don Hall and Mr. Bob Dahlin. If they could be
25 sworn in at this time, please.

1 COURT REPORTER: (Swears witnesses.)

2 MR. CHAIRMAN: You may proceed.

3

4 DON C. HALL

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

7

8 DIRECT EXAMINATION

9

10 BY MR. KAISER:

11 Q. Mr. Hall, could you state your full name for the record,
12 who you're employed by and in what capacity, please?

13 A. Don C. Hall with Equitable Resources Exploration and I'm
14 district landman in Virginia.

15 Q. Have your qualifications previously been accepted and
16 have you previously testified as an expert witness before
17 this Board?

18 A. Yes.

19 Q. Mr. Hall, do your responsibilities include the lands
20 involved here and in the surrounding area?

21 A. Yes.

22 Q. And are you familiar with the application for a location
23 exception for well V-2033 and the relief requested?

24 A. Yes, I am.

25 Q. Have all interested parties been notified as required by

1 Section 4.B of the Virginia Gas & Oil Board Regulations?

2 A. They have.

3 Q. Would you indicate for the Board the ownership of the oil
4 and gas underlying well V-2033?

5 A. Pine Mountain Oil & Gas owns 44.53 percent and 55.47
6 percent is owned by individuals.

7 Q. Does EREX have the right to operate the reciprocal wells
8 as shown on the exhibit that has been submitted to the
9 Board, that being P-388 and P-373?

10 A. Yes, we do.

11 Q. Mr. Hall, have you made a personal visit to this site?

12 A. Certainly.

13 Q. And in conjunction with your personal visit to the site
14 and the exhibit prepared for the hearing could you please
15 state for the Board the reasons why a location exception
16 is needed in order to prevent lost reserves?

17 A. The well that we're needing an exception from is P-388.
18 We're approximately 70 feet closer than the 2,640 to that
19 well. If we move that well to the southwest, looking at
20 the exhibit, at an additional 70 feet we're going to be
21 putting it in that hollow there that -- very near that
22 hollow that -- the field side location would be in the
23 hollow. So it's not a practical place to put the
24 location. If we move it a little farther to the south-
25 west we'd be on the area which is shaded in green which

1 is a Nancy Baker heir's tract which we will be attempting
2 to force pool later that we do not have under lease.

3 Q. In summary then our primary reasons are both topographic
4 and the fact that if we were to move the well over the
5 green line that they see on this exhibit that puts us
6 onto a mineral tract that we do not have under a volunt-
7 ary agreement and that we'll be seeking to force pool?

8 A. That is correct.

9 MR. KAISER: I have nothing further of this witness at this
10 time, Mr. Chairman.

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

(Witness stands aside.)

12
13 MR. CHAIRMAN: You may call your next witness.

14
15 ROBERT A. DAHLIN, II

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

18
19 DIRECT EXAMINATION

20
21 BY MR. KAISER:

22 Q. Mr. Dahlin, could you please state your name for the
23 record, who you're employed by and in what capacity?

24 A. My name is Robert A. Dahlin, II and I'm employed as a
25 production specialist with EREX.

1 Q. Mr. Dahlin, are you familiar with the application for
2 this location exception filed by Equitable Resources
3 Exploration for well V-2033?
4 A. Yes, sir, I am.
5 Q. In the event this location exception is not granted would
6 you project the estimated loss of reserves that would
7 result?
8 A. 550 million cubic feet of gas.
9 Q. What is the total depth of the proposed initial well
10 under the applicant's plan of development?
11 A. 4,555 feet.
12 Q. Will this include formations consistent with the well
13 work permit now pending before the DMME?
14 A. Yes.
15 Q. And will this depth be sufficient to penetrate and test
16 the common sources of supply in the subject formations?
17 A. Yes, it will.
18 Q. Is the applicant requesting a location exception of
19 conventional gas reserves not only to include the
20 designated formations but any other formations excluding
21 coal which may be between those formations designated
22 from the surface to the total depth drilled?
23 A. Yes, we are.
24 Q. Mr. Dahlin, in your opinion will the granting of this
25 location exception be in the best interest of preventing

1 waste, protecting correlative rights and maximizing the
2 recovery of gas reserves underlying V-2033?

3 A. Yes, it would.

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

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

7 MR. EVANS: One real quick question. The pond, I'm assuming
8 that that's a pond that's located --

9 MR. KAISER: Yeah, in the blue.

10 MR. EVANS: Is that a stock pond or is this on a mining
11 property or what?

12 MR. HALL: That's on an individual's property. It's not a
13 mining pond.

14 MR. EVANS: It's just a stock pond or whatever?

15 MR. HALL: Just a farm pond. Yes, sir.

16 MR. CHAIRMAN: Other questions?

17 (Witness stands aside.)

18 MR. CHAIRMAN: Do you have anything further?

19 MR. KAISER: Nothing further at this time, Mr. Chairman.

20 MR. EVANS: Mr. Chairman, I do have one other question. In
21 participation in P-388 are there any -- in the overlap
22 area do we have any problems with allocations, ownership,
23 gas leased?

24 MR. HALL: In the overlap area that would be Pine Mountain
25 property which we have under lease.

1 MR. EVANS: So there's no reciprocals or anything like that as
2 far as different people involved?

3 MR. HALL: Huh-uh.

4 MR. CHAIRMAN: Would the Board like to go ahead now and hear
5 the other application and then both vote on both of them
6 once you've heard all the evidence? All right. We'll
7 call docket number VGOB-94/12/13-0487.

8 MR. KAISER: Jim Kaiser on behalf of Equitable Resources
9 again, Mr. Chairman, and we'll have Mr. George Heflin as
10 our landman on this matter. So we'll ask that he be
11 sworn in at this time.

12 COURT REPORTER: (Swears witness.)

13

14

GEORGE HEFLIN

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

17

18

DIRECT EXAMINATION

19

20 BY MR. KAISER:

21

Q. Mr. Heflin, if you could state your name for the Board,
22 who you're employed by and in what capacity?

23

A. George B. Heflin. I'm landman, requisitions, explora-
24 tion, responsible for lease acquisitions also.

25

Q. Do your responsibilities include the lands involved here

1 and in the surrounding area?

2 A. Yes, they do.

3 Q. And are you familiar with Equitable's application for the
4 establishment of the drilling unit and pooling order for
5 EREX well V-2033 dated November 10th, 1994?

6 A. Yes, I am.

7 Q. Is Equitable seeking to force pool the drilling rights
8 underlying the drilling and spacing unit as depicted at
9 Exhibit A of the application?

10 A. We are.

11 MR. KAISER: Mr. Chairman, at this time I would want to submit
12 a revised plat and a revised Exhibit B before we get
13 further into Mr. Heflin's testimony. (Pause.)

14 Q. (Mr. Kaiser continues.) Mr. Heflin, does Equitable own
15 drilling rights in the unit involved here?

16 A. Yes, we do.

17 Q. Does the proposed unit depicted at Exhibit A which is now
18 in front of the Board include all acreage within 2,640
19 feet, that is a 1,320 foot radius of well V-2033?

20 A. That's correct.

21 Q. What is the interest of Equitable in the unit?

22 A. We have at this time 75.074286 under lease.

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

25 A. Yes, I am.

1 Q. What is that unleased interest?
2 A. 24.925714 percent.
3 Q. Are all the unleased parties set out at the amended
4 Exhibit B before the Board?
5 A. Yes, they are.
6 Q. Prior to the filing of the application were efforts made
7 to contact each of the respondents and an attempt made to
8 work out an agreement regarding the development of the
9 unit involved?
10 A. Yes, they were.
11 Q. At this time, Mr. Heflin, and subsequent to the filing of
12 the application have you continued to attempt to reach an
13 agreement with the respondents listed at amended Exhibit
14 B?
15 A. We are.
16 Q. At this time could you explain the revisions and the
17 additional leases that have been acquired since the
18 original filing of the application?
19 A. The first change is interest per tract. In moving the
20 unit the interest has changed and also we've picked up
21 additional leases. In Tract 4 we picked up Rufus Musick
22 and Roger Musick making Tract 4 100 percent leased to
23 EREX. In Tract 5 we have leased Rose Besick, also Bill
24 Rose, Madeline Robinson and Lacy Rose. We picked up an
25 additional five leases in Tract 5.

1 Q. Mr. Heflin, you testified that moving the well changed
2 the interest of some of the parties involved in the unit
3 and you've also gone over the additional leases picked
4 up. Did the moving of the well cause any new interest
5 owners to come into the unit?

6 A. No, it did not.

7 Q. So everybody has been properly noticed and there are no
8 notice problems, is that correct?

9 A. That's correct.

10 MR. EVANS: I've got one quick question. Did moving the well
11 take anyone out?

12 MR. HEFLIN: No, it did not.

13 MR. EVANS: Thank you.

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

20 A. Yes, there were.

21 Q. Were reasonable and diligent efforts made and sources
22 checked to identify and locate unknown heirs, to include
23 primary sources such as deed records, probate records,
24 assessors records, treasurers records, and secondary
25 sources such as telephone directories, city directories,

1 family and friends?

2 A. Yes, we did.

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

5 A. Yes.

6 Q. Are the addresses set out in the amended Exhibit B to the
7 application the last known addresses for the respondents?

8 A. That's correct.

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 interests listed
12 at amended Exhibit B?

13 A. Correct.

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. Yes, we are.

19 Q. Is Equitable seeking to force pool the drilling rights of
20 the person designated as trustee if acting in the
21 capacity of trustee and if not acting in such capacity is
22 Equitable seeking to force pool the drilling rights of
23 the successor of such trustee?

24 A. Yes.

25 Q. Mr. Heflin, are you familiar with the fair market value

1 of drilling rights in the unit here and in the surround-
2 ing area?

3 A. Yes, I am.

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

5 A. A five dollar bonus, a five year term. A five dollar
6 consideration I should say.

7 Q. And what's the royalty?

8 A. One-eighth royalty.

9 Q. Did you gain your familiarity by acquiring oil and gas
10 leases and other agreements involving the transfer of
11 drilling rights in this unit and in units in the sur-
12 rounding area?

13 A. That's correct.

14 Q. In your opinion do the terms you have testified to
15 represent the fair market value of and the fair and
16 reasonable compensation to be paid for drilling rights
17 within this unit?

18 A. Yes, they are.

19 Q. Based on this testimony and as to the respondents who
20 have not voluntarily agreed to pool do you recommend that
21 the respondents listed at amended Exhibit B who remain
22 unleased be allowed the following options with respect to
23 their ownership interest within the unit: 1) Participat-
24 ion. 2) A cash bonus of five dollars per net mineral
25 acre plus a one-eighth of eight-eighths royalty. 3) In

1 lieu of the cash bonus and one-eighth of eight-eighths
2 royalty share in the operation of the well on a carried
3 basis as a carried operator under the following condi-
4 tions; Such carried operator shall be entitled to the
5 share of production from the tracts pooled accruing to
6 his interest exclusive of any royalty or overriding
7 royalty reserved in any leases, assignments thereof or
8 agreements relating thereto of such tracts but only after
9 the proceeds allocable to his share equal A) 300 percent
10 of the share of such costs allocable to the interest of
11 the carried operator of a leased tract or portion thereof
12 or B) 200 percent of the share of such costs allocable to
13 the interest of the carried operator of an unleased tract
14 or portion thereof?

15 A. That's correct.

16 Q. Do you recommend that the order provide that any elect-
17 ions by respondents be in writing and sent to the
18 applicant at Equitable Resources Exploration, P.O. Box
19 1983, Kingsport, Tennessee, 37662, attention George
20 Heflin, Regulatory?

21 A. That's correct.

22 Q. And should this be the address for all communications
23 with the applicant concerning the forced pooling order?

24 A. Yes, it should.

25 Q. Do you recommend that the forced pooling order provide

1 that if no written election is properly made by a
2 respondent then such respondent shall be deemed to have
3 elected to a cash royalty option in lieu of participa-
4 tion?

5 A. Yes.

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

8 A. Yes, they should.

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

12 A. Yes.

13 Q. Does the applicant expect the party electing to partici-
14 pate to pay in advance that party's share of completed
15 well costs?

16 A. That's correct.

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

21 A. Yes.

22 Q. Do you recommend that the forced pooling order provide
23 that if a respondent elects to participate but fails to
24 pay respondents proportionate share of well costs
25 satisfactory to the applicant for the payment of well

1 costs the respondent's election to participate should be
2 treated as having been withdrawn and void and such
3 respondent should be treated just as if no initial
4 election had been filed under the forced pooling order?

5 A. That's correct.

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

13 A. Yes.

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

23 A. That's correct.

24 Q. Who should be named the operator under this forced
25 pooling order?

1 A. Equitable Resources Exploration.

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

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

5 (Witness stands aside.)

6 MR. CHAIRMAN: Go ahead.

7

8 ROBERT A. DAHLIN, II

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

11

12 DIRECT EXAMINATION

13

14 BY MR. KAISER:

15 Q. Mr. Dahlin, could you once again please state your name
16 for the record, who you're employed by and in what
17 capacity?

18 A. My name is Robert A. Dahlin, II and I'm employed as a
19 production specialist with EREX.

20 Q. And have you previously testified before this Board and
21 have your qualifications as an expert witness previously
22 been accepted by the Board?

23 A. Yes.

24 Q. Do your responsibilities include the lands involved here
25 and in the surrounding area?

1 A. Yes, they do.

2 Q. Mr. Dahlin, are you familiar with the proposed explor-
3 ation and development of the unit involved here under the
4 applicant's proposed plan of development?

5 A. Yes.

6 Q. What is the total depth of the proposed initial well
7 under the plan of development?

8 A. 4,555 feet.

9 Q. And I think we testified previously in our location
10 exception that this will be consistent with the forma-
11 tions listed in the well work permit?

12 A. That's correct.

13 Q. And that this will this be sufficient to penetrate and
14 test the common sources of supply?

15 A. Yes.

16 Q. What are the estimated reserves of the unit?

17 A. 550 million cubic feet.

18 Q. Are you familiar with the well costs for the proposed
19 initial well?

20 A. Yes, sir, I am.

21 Q. Has an AFE been reviewed, signed and submitted to the
22 Board?

23 A. It has.

24 Q. Was this AFE prepared by an engineering department
25 knowledgeable in the preparation of AFEs and knowledge-

1 MR. KAISER: Nothing further.

2 MR. MASON: I'd like to direct a question looking at the well
3 plat. The center tract where the well is located where
4 it says Carley Mullins, surface, that 8. -- is that part
5 of one of the other tracts on here or is it a separate
6 tract?

7 MR. HEFLIN: The surface tract on there overlies two mineral
8 tracts.

9 MR. MASON: Which two mineral tracts?

10 MR. HEFLIN: It overlies the Ann W. Stratton oil and gas tract
11 one which is Pine Mountain and Pyxis --

12 MR. MASON: Are the solid lines the mineral tracts?

13 MR. HEFLIN: Yes, sir.

14 MR. MASON: I'm just trying to understand this.

15 MR. HEFLIN: The solid lines are the mineral tracts and the
16 dash lines are the surface. In this particular case
17 we've got some dash lines also here representing the
18 division lines of the mineral tracts as well. We've got
19 the two Pine Mountain tracts -- or actually three Pine
20 Mountain tracts and Pyxis tracts in solid.

21 MR. MASON: So this surface tract is overlying tract two and
22 tract one?

23 MR. HEFLIN: Yes, sir.

24 MR. MASON: You did not include Mr. Mullins in your --

25 MR. HEFLIN: It is part of tract six also. Excuse me. Excuse

1 me. I mis-spoke. It's overlying six and one.

2 MR. MASON: Six?

3 MR. HEFLIN: Yes, sir.

4 MR. MASON: Okay. It's hard to tell. Mr. or Mrs. or Ms. or
5 whoever it is Mullins is not included in your pooling
6 application, is that correct?

7 MR. HEFLIN: Right, because they own surface only. It's a
8 surface tract only. That's just to identify the surface
9 owner, who the well will be drilled on.

10 MR. MASON: On this plat does any part of this road cross any
11 tracts that you do not have a lease?

12 MR. HALL: Yes. Let me address that. If you're looking at
13 this plat where you see the dashed line here this was
14 getting kind of dizzy with the colors and so forth. So I
15 just didn't color it. But this line right here indicates
16 the same line that you're seeing on the plat that -- just
17 below Frank Beverly there on the plat. Carley Mullins
18 owns some surface overlying the Nancy Baker heirs'
19 mineral tract, but we have reached an agreement with
20 Carley Mullins on using his surface property.

21 MR. MASON: That's the point I'm trying to get at, that you're
22 not going to be having any surface activity --

23 MR. KAISER: We're not seeking any surface rights through this
24 forced pooling.

25 MR. MASON: Thank you.

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MR. CHAIRMAN: Okay. Any other questions? Mr. Kaiser, did you have anything further at all?

MR. KAISER: No, Mr. Chairman.

MR. EVANS: Mr. Chairman, I move that we approve the location exception and the forced pooling application.

MR. MASON: Second.

MR. CHAIRMAN: A motion and a second. Further discussion? All in favor signify by saying yes. (ALL AFFIRM.) Opposed say no. (NONE.) It's a unanimous approval. Thank you. That concludes today's agenda.

(End of Proceedings for
January 17, 1995)

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CERTIFICATE

COMMONWEALTH OF VIRGINIA
COUNTY OF WASHINGTON

I, Deborah J. Bise, Notary Public in and for the Commonwealth of Virginia, at Large, do hereby certify that the foregoing is a true transcript of the proceedings had in the Virginia Gas and Oil Hearing on January 17, 1995; that all of said proceeding was electronically recorded and was reduced to writing by me and that said transcript is true and correct to the best of my ability.

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

GIVEN under my hand this 31st day of January, 1995.

Deborah J. Bise
DEBORAH J. BISE
NOTARY PUBLIC

My commission expires September 30, 1996.