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VIRGINIA OIL AND GAS BOARD

HEARING OF JULY 18, 1995

9:00 A.M.

AT THE SOUTHWEST VIRGINIA

4-H CENTER

ABINGDON, VIRGINIA

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July 18, 1995

This matter came on to be heard on this the 18th day of July, 1995 before the Virginia Gas and Oil Board at the Southwest Virginia 4-H Center, Hillman Highway, Abingdon, Virginia pursuant to Section 45.1-361.19.B and 45.1-361.22.B of the Code of Virginia.

MR. CHAIRMAN: Good morning. My name is Benny Wampler, Deputy Director for the Department of Mines, Minerals and Energy. I'll ask the Gas and Oil Board members to introduce themselves starting with Dennis, please.
(MEMBERS INTRODUCED.)

ITEM I II

1
2
3 MR. CHAIRMAN: Thank you. The first item on today's agenda is
4 a petition from Buchanan Production Company for pooling
5 of Unit W-17. This is docket number VGOB-95/07/18-0508.
6 We'd ask the parties that wish to address the Board in
7 this matter to come forward at this time.

8 MR. SWARTZ: Mark Swartz and Les Arrington on behalf of the
9 applicant. Also I might mention that both of these
10 units are related that are on the docket this morning,
11 W-17 and V-17, and it would probably make sense to
12 consolidate them since the testimony's going to be
13 basically pretty similar.

14 MR. CHAIRMAN: I'll go ahead and call the other docket number.
15 It's a petition from Buchanan Production Company for
16 pooling of Unit V-17. This is docket number VGOB-
17 95/07/18-0509. The record will show there are no other
18 parties wishing to address the Board at this time.

19 MR. SWARTZ: Les has a booklet of exhibits for each of the
20 units and the loose sheets in each booklet that he's
21 giving you which are in the front are corrected exhibits.
22 These exhibits were filed with the application and
23 basically the correction is simply that they were
24 mislabeled, misnumbered. The content is correct but
25 instead of being A-1 they were A or instead of being A

1 they were B. So they're correctly numbered so they track
2 the application references. The loose ones in the front.
3 Would you swear Les in for me?

4 COURT REPORTER: (Swears witness.)
5

6 LELSIE K, ARRINGTON

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

10 DIRECT EXAMINATION
11

12 BY MR. SWARTZ:

13 Q. Les, could you state your full name for us?

14 A. Leslie K. Arrington.

15 Q. And who do you work for?

16 A. Consol.

17 Q. What do you do for them?

18 A. Permit specialist.

19 Q. Is Consol requesting that it be appointed the designated
20 operator with regard to both of these units?

21 A. Yes, they are.

22 Q. Did you prepare the notices of the applications and most
23 of the exhibits with regard to both of these appli-
24 cations?

25 A. Yes, I have.

1 Q. And, in fact, you've signed them?
2 A. Yes, I have.
3 Q. Both of these units are -- it's anticipated that they
4 would start out as frack well units, correct?
5 A. Yes.
6 Q. And they are being drilled out ahead of mining?
7 A. Yes, they are.
8 Q. What roughly is the time window between completing them
9 as fracking and mining?
10 A. Two years.
11 Q. So you would anticipate roughly two years of frack well
12 production?
13 A. Yes.
14 Q. And then ultimately we'll be looking at active gob
15 production?
16 A. Active gob and then later on down the road sealed gob.
17 Q. But with regard to these applications we're requesting a
18 pooling order under both Oakwood I which deals with frack
19 well production and Oakwood II which deals with short
20 hole and unsealed gob?
21 A. That's correct.
22 Q. So that we cover the course of production from the
23 beginning through unsealed and if sealed becomes a
24 factor we have to come back?
25 A. That's correct.

1 Q. What mine are these units over?
2 A. The VP-8 mine.
3 Q. If we look at Exhibit #G to the application which would
4 be the same with regard to either of these applications
5 does Exhibit #G show a portion of the VP-8 mine?
6 A. Yes, it does.
7 Q. And it shows the longwall panels that would affect the
8 two units that are under consideration today?
9 A. Yes, it does.
10 Q. Those panels are what number panels?
11 A. The 3-East and 4-East longwall panels.
12 Q. On Exhibit #G you're showing the percentages of the panel
13 allocation in reference to each of these units, aren't
14 you?
15 A. Yes, we are.
16 Q. Then also with regard to Exhibit #G, Page 1, which is the
17 last page of the application we've renumbered the little
18 packet you've got, that repeats the percentages?
19 A. Yes, it does.
20 Q. The percentage for V-17 and W-17 in reference to these
21 panels would be what?
22 A. Unit V-17 in the 4-East longwall panel would be 9.757
23 percent. W-17 in the 4-East panel would be 15.226
24 percent of the longwall panel. And in 5-East W-17 would
25 be 24.589 percent of the panel.

- 1 Q. V-17 is also in 3-East and the percentage of V-17 in 3-
2 East is what?
- 3 A. 26.989 percent.
- 4 Q. And those percentages are relevant to the allocation of
5 unsealed gob production, correct?
- 6 A. That is correct.
- 7 Q. Also if you turn to Exhibit #B, the listing of people
8 that are being pooled or the respondents here, there is
9 set forth after their names under a column "Interest in
10 unit" some percentages, correct?
- 11 A. That's correct.
- 12 Q. For frack well production purposes to the extent that
13 they're -- in this instance there is, in fact, a frack
14 well located in these units -- in each of these units, I
15 think.
- 16 A. Yes.
- 17 Q. Yes, there is. This percentage interest in units that's
18 reported in Exhibit #B would be relevant to the allo-
19 cation, correct?
- 20 A. That's correct.
- 21 Q. And also in combination with the division of interest in
22 the panels which is also reported in Exhibit #B would be
23 relevant ultimately to unsealed gob production?
- 24 A. That's correct.
- 25 Q. So the numbers here to allocate production are contained

1 within both of these exhibits?

2 A. That's correct.

3 Q. And also in terms of the numbers required to calculate

4 participation interest in the event that these folks

5 would opt to elect to participate, those percentages are

6 also present?

7 A. That is correct.

8 Q. In the bound exhibits that you filed with the Board

9 today, the two volumes of bound exhibits, there's an

10 affidavit of due diligence. Did you sign that?

11 A. Yes, I did.

12 Q. Attached to that affidavit of due diligence there's a

13 certification of mailing, correct?

14 A. That's correct.

15 Q. With regard to all of the notices that were mailed to

16 respondents in both of these units is it indeed true that

17 everyone signed for the mail?

18 A. Yes, they did.

19 Q. We do not have any unaccounted for mail here, correct?

20 A. That's correct.

21 Q. Did you publish with regard to both of these appli-

22 cations?

23 A. Yes, we did on June 27th, 1995?

24 Q. In what newspaper?

25 A. Bluefield Daily Telegraph.

- 1 Q. There's a copy of the certificate of publication again
2 with regard to both notices in each of these bound
3 volumes?
- 4 A. Yes, it is.
- 5 Q. There is also in each of the applications an Exhibit #C
6 which is a well cost estimate, correct?
- 7 A. That is correct.
- 8 Q. Was that Exhibit #C prepared within the last 60 days?
- 9 A. Yes, it has been.
- 10 Q. In fact, what date were those two prepared on?
- 11 A. June 16th, 1995.
- 12 Q. And what is the estimated amount for these frack wells?
- 13 A. \$264,981.90.
- 14 Q. Does that amount include the cost of frack?
- 15 A. Yes, it does.
- 16 Q. What amount is assigned as an estimate of the frack
17 cost?
- 18 A. The estimated frack cost is \$60,000.
- 19 Q. And the projected depth of each of those wells?
- 20 A. 2,250 feet.
- 21 Q. Would that projected depth actually take us below the
22 Pocahontas #3 Seam?
- 23 A. Yes, it will.
- 24 Q. So your practice is what, to drill below the Pocahontas?
- 25 A. Yes. We are now drilling below the Pocahontas #3 Seam.

- 1 Q. About how far?
- 2 A. From 100 to 200 feet.
- 3 Q. The frack or completion, is that all at the Pocahontas #3
- 4 Seam or above or is some of that below it?
- 5 A. No. All of it's above Pocahontas #3 Seam and above.
- 6 Q. But below the Tiller?
- 7 A. But below the Tiller, yes.
- 8 Q. For each panel -- I know we've been through this before
- 9 with regard to these panels, but for each panel how many
- 10 frack wells are projected?
- 11 A. Six.
- 12 Q. And Exhibit #G cost break out assumes six fracked wells?
- 13 A. That is correct. It does.
- 14 Q. For each of the panels?
- 15 A. That's correct.
- 16 Q. And then these costs are totaled and allocated based on
- 17 the percentages that we previously talked about that are
- 18 reported on Exhibit #G, Page 1?
- 19 A. Yes, they are.
- 20 Q. With regard to the standing and who's the applicant and
- 21 so forth -- just to go quickly through some of this
- 22 information. Buchanan Production Company is the appli-
- 23 cant here, right?
- 24 A. Yes, they are.
- 25 Q. And they are a Virginia general partnership?

1 A. Yes.

2 Q. Is Buchanan Production Company authorized to do business
3 in the Commonwealth?

4 A. Yes, they are.

5 Q. As indicated before there's a request in the application
6 that Consol be appointed the designated unit operator.
7 Could you explain to the Board the relationship or the
8 authority of Consol to act on behalf of Buchanan Produc-
9 tion Company and reference the exhibits that are perti-
10 nent today?

11 A. Yes. The exhibits are referenced to Exhibits #4, #5 and
12 #6 and each booklet they have been -- Consol, Inc. has
13 been appointed operator by the professional managers.

14 Q. So Buchanan Production has, in fact, delegated in writing
15 in the exhibits that are before the Board certain
16 authority to Consol to manage its property?

17 A. That's correct.

18 Q. And, in fact, there are three individuals at Consol
19 designated to act in certain respects with regard to the
20 affairs of Buchanan Production. Who would those people
21 be?

22 A. Claude Morgan as general manager, William Gillenwater as
23 land manager, and Randy Albert as regulatory manager.

24 Q. Are all of the respondents and all of the people who need
25 to be pooled named in the notice?

- 1 A. Yes, they are.
- 2 Q. Essentially we're dealing with Diana Graham in both
3 applications and one other -- a couple of the Ratcliffs
4 in the other application, correct?
- 5 A. That is correct.
- 6 Q. Why is Grundy National Bank listed with regard to both of
7 these applications?
- 8 A. They have an outstanding lien against the Diana Graham
9 property.
- 10 Q. Well, actually it's a little more complicated than that.
11 Grundy National Bank has commenced a law suit a whole
12 number of folks and Diana Graham happened to be one of
13 them?
- 14 A. Yes.
- 15 Q. And in that law suit the bank is attempting to obtain a
16 lien against Diana Graham's interest?
- 17 A. That's correct.
- 18 Q. So that is why they've been doing it?
- 19 A. Yes, it is.
- 20 Q. Turning to the V-17 application, Les, in terms of
21 standing, what percentage of the coal does the applicant
22 either own or lease?
- 23 A. In V-17 100 percent.
- 24 Q. And what percentage of the oil and gas is owned or leased
25 by the applicant?

1 A. 90.543 percent.
2 Q. Is it reversed? I think --
3 A. Okay. 9.436.
4 Q. Is leased or owned?
5 A. Is leased or owned, yes.
6 Q. In V-17 what needs to be pooled is the oil and gas
7 interest. And what percentage is that?
8 A. It's 90.543 percent.
9 Q. With regard to W-17 -- and this would be in the revised
10 package, A, Page 2 -- what percentage of the coal is
11 either owned or leased by the applicant?
12 A. 100 percent.
13 Q. And what percent of the oil and gas is either owned or
14 leased by the applicant?
15 A. 94.551 percent.
16 Q. With regard to the interest that needs to be pooled is
17 that oil and gas interest?
18 A. Yes, it is.
19 Q. And in what percentage?
20 A. 5.449 percent.
21 Q. The number that was on Exhibit #A, Page 2, with regard to
22 the interest that needed to be pooled was misstated?
23 A. That's correct.
24 Q. And it's correct on the revised Exhibit #A?
25 A. Yes, it is.

1 Q. Lastly, Les, is the estimate of costs in Exhibit #C in
2 your opinion a reasonable estimate as to what those costs
3 will be with regard to the six proposed frack wells?
4 A. Yes, it is.
5 Q. Is it your opinion that the applicant's plan for develop-
6 ment with regard to the panels in question here in the
7 VP-8 Mine is a reasonable plan to develop the coalbed
8 methane resources within these units and the adjoining
9 units?
10 A. Yes, it is.
11 Q. Is it your opinion that the proposed development will
12 contribute to the protection of correlative rights of the
13 owners of the methane within and under the units in
14 question and within and under the units affected by these
15 panels?
16 A. Yes, it is.
17 MR. SWARTZ: That's all I have.
18 MR. CHAIRMAN: Questions, members of the Board?
19 MR. EVANS: I've got one question. Maybe Les is not the one
20 or maybe you are. Why are you drilling 200 feet below
21 the seam?
22 THE WITNESS: We have in the past noticed some gas from below
23 the #3 Seam. So we've been trying to pick it up to
24 remove it before mining. We haven't had a whole lot of
25 luck yet, but we are drilling below it just trying to

1 remove it.

2 MR. EVANS: This gas from below the #3 Seam, is it still in
3 the coal measures?

4 THE WITNESS: Yes, it is. You have the Square Jim, the
5 Pocahontas #1 Seam and Pocahontas #2 Seam below the #3
6 Seam.

7 MR. EVANS: At what depths?

8 THE WITNESS: Generally it's within 100 feet, those coal seams
9 are. It's generally within 100 feet of the coal seam.

10 MR. EVANS: And so you are not going below those?

11 THE WITNESS: No, we are not.

12 MR. EVANS: Are those seams continuous throughout the area of
13 your drilling as far as when you drill below?

14 THE WITNESS: Most of the time you will find some stringer of
15 coal below, yes.

16 MR. EVANS: Is it your opinion that that's those measures --
17 given that the coal may be absent, is that the same pool
18 that the Oakwood coalbed methane field rules are based
19 on?

20 THE WITNESS: Yes, I do. Yes, it is.

21 MR. EVANS: Have you submitted anything to the Oil and Gas
22 Inspector to maybe confirm that?

23 THE WITNESS: Well, if I recall right the Oakwood Field goes
24 down to all coal seams to the Red and Green Shells.

25 MR. EVANS: And this depth is above the Red and Green Shells?

1 THE WITNESS: Yes, it is.

2 MR. EVANS: Thank you.

3 MR. CHAIRMAN: Do you do any fracking below the Pocahontas #3?

4 THE WITNESS: No, we do not.

5 MR. CHAIRMAN: Are you fracking seams above the Pocahontas #3?

6 THE WITNESS: Yes, we are.

7 MR. SWARTZ: Why don't you give Benny some idea as to the --

8 just roughly how far above you've been fracking?

9 THE WITNESS: We've fracked up to 500 feet above.

10 MR. CHAIRMAN: What type of plug do you put in these -- in the

11 hole for the mine through?

12 THE WITNESS: For the mine through?

13 MR. CHAIRMAN: Yes.

14 THE WITNESS: They have been setting a cement plug.

15 MR. CHAIRMAN: Do they set that plug above and below the Pokie

16 ?? Do they go all the way to the bottom of the hole?

17 THE WITNESS: Generally what they like to do is set a cement

18 plug completely through it to approximately 40 feet

19 above.

20 MR. SWARTZ: Do they mine through the plug?

21 THE WITNESS: Yes.

22 MR. SWARTZ: And above the plug I think they fill it with

23 water.

24 THE WITNESS: For mine through?

25 MR. SWARTZ: Uh-huh. Or don't you know?

1 THE WITNESS: Just plug it at 40 feet.

2 MR. CHAIRMAN: Do they notify the Division of Mines prior to
3 the mine through for any -- as they approach the distanc-
4 es?

5 THE WITNESS: Well, I can't really answer. I know we plug it
6 and then I'm pretty much finished at that point, Benny.
7 I can't answer that.

8 MR. CHAIRMAN: What type of communication do you have as far
9 as the drilling side with the mining side of it?

10 THE WITNESS: We work with them daily. I mean, constantly
11 we're working together. I deal with our operating field
12 people which is in the same building as the mining
13 people.

14 MR. CHAIRMAN: And you all communicate where that plug should
15 be set?

16 THE WITNESS: Yes, we do.

17 MR. CHAIRMAN: And they're aware before they do any mine
18 through or anything like that?

19 THE WITNESS: Yes, sir. We sure do. And at all times they
20 know -- they even get a written up description of how
21 they think the cement plug is setting in the hole.

22 MR. CHAIRMAN: Any other questions, members of the Board? I
23 have one other one going to the resolutions, I guess, the
24 various exhibits. I know Mr. Carris has changed since
25 some of the earlier testimony that we've had. Could you

1 tell us who he is and then also whether or not there are
2 any other changes to the management committee?

3 THE WITNESS: To my knowledge there is no other changes to the
4 management committee. And Mr. Carris is now chief
5 executive officer of Consol.

6 MR. CHAIRMAN: Thank you. Anything further, anyone?

7 (Witness stands aside.)

8 MR. CHAIRMAN: Do you have anything further, Mr. Swartz?

9 MR. SWARTZ: No.

10 MR. EVANS: Mr. Chairman, I move that we grant the petition
11 for both.

12 MR. LEWIS: I second it.

13 MR. CHAIRMAN: A motion and second to grant the petitions for
14 docket numbers VGOB-95/07/18-0508 and 0509. Any further
15 discussion?

16 MS. RIGGS: I just have one question. You're asking for
17 Oakwood I and II. How are you going to trigger the
18 change in allocation?

19 MR. SWARTZ: If you look at the application, either one, I
20 think I've dealt with it, Sandy. If you look at relief
21 sought #4 which would be Page 2 of the application, see
22 that #4 relief sought?

23 MS. RIGGS: Uh-huh.

24 MR. SWARTZ: If you go to the top of the next page there's a
25 311 and under the Oakwood II rules we addressed this but

1 I have changed it a little bit to be specific here to the
2 -- in Oakwood II it really wasn't contemplated as to how
3 it would trigger. So I reworded it here and what I'm
4 specifically asking for is that once the panels are
5 isolated which is the concept in Oakwood II then it gets
6 allocated and I've added language here which says that --
7 this is not a 311 -- prior to, which is the concept we've
8 always had, actual commencement of coal mining operations
9 and completion of isolation of longwall panel gas from
10 any wells located in the proposed longwall panel shall be
11 produced from and allocated to only the 80 acre unit in
12 which the well or wells is located. According to the
13 undivided interests each -- this is language that I've
14 added -- owner/claimant within the unit which undivided
15 interest shall be the ratio expresses a percentage that
16 the amount of mineral acreage within the separate track
17 that is within the drilling unit when platted on the
18 surface bears to the 80 acres. So I've kind of embedded
19 some additional language here that allocates within the
20 unit and says how it's going to happen, which really
21 wasn't in the Oakwood II language.

22 MS. RIGGS: Right.

23 MR. SWARTZ: And then obviously 31 says that after you've
24 isolated it then you go to the other allocation process.
25 So I think they're both covered in what I have asked for.

1 And if you could track this in your order it ought to
2 work.

3 MS. RIGGS: Okay. To my recollection this is the first time
4 we've done a combined Oakwood I and Oakwood II order.

5 MR. ARRINGTON: No. We done one on PGP.

6 MS. RIGGS: Okay.

7 MR. SWARTZ: I think these are the first for BPC.

8 MR. ARRINGTON: Yes, it is. This is the first one for BPC.

9 MS. RIGGS: If it was a couple of months ago it's the order
10 that's pending and I don't think it captures this
11 concept at all. So we need to --

12 MR. SWARTZ: Well, I didn't do that.

13 MR. ARRINGTON: It would have a date in it but you're correct
14 about not capturing --

15 MS. RIGGS; Oh, you're talking about the switch over from the
16 longwall panels to the 80 acre units.

17 MR. ARRINGTON: You're right.

18 MS. RIGGS: Well, those pooling orders have been done as
19 Oakwood II pooling orders. It's not a transitional
20 situation at all because there before the orders were
21 entered the transition had occurred and we were already
22 into Oakwood II.

23 MR. CHAIRMAN: Yeah, you were catching up on that one.
24 Remember that?

25 MR. ARRINGTON: Yeah, we were catching up but there's frack

1 wells on out ahead of us.

2 MR. CHAIRMAN: Right.

3 MR. SWARTZ: We're going to have more of these. We're trying
4 to be pretty careful to point this out. I think the next
5 time we've got a couple that are just -- that are not
6 going to be frack, that are going to be short hole or
7 unsealed. But you're going to be seeing more and more of
8 these because we're finally getting caught up and getting
9 out ahead of mining. And we're just making one trip
10 basically which I think is easier for all of us.

11 MS. RIGGS: We had talked about that before when we set up the
12 Oakwood I and then the Oakwood II. And then based on
13 various things that happened with the modifications of
14 Oakwood I and II they became identical practically.

15 MR. SWARTZ: Right.

16 MS. RIGGS: And then it became like why do we have Oakwood I
17 and II except to provide for this change in the way you
18 allocate this transitional kind of thing. But the
19 language that is here does not track the Oakwood I or the
20 II. It's a hybrid of -- it's a combined language of the
21 two and that's the only thing I wanted to point out.
22 That we are for the first time, I think, taking that
23 step.

24 MR. SWARTZ: Well, it occurred to that we probably needed to
25 actually say in this order or in the application what

1 kind of relief we wanted for a frack allocation. So
2 that's why I've changed it.

3 MS. RIGGS: No. I understand that. I'm just --

4 MR. SWARTZ: Because we need an order that says this is how
5 you allocate until you isolate the panel. And we really
6 haven't had to deal with that in the Oakwood II because
7 we've isolated the panel. I was looking at that language
8 and I thought the Oakwood II language which we've been
9 using -- we've kind of copied -- wasn't going to work.
10 And we really need this to be in the order.

11 MS. RIGGS: Well, we had talked about going back and amending
12 Oakwood I and II to combine the field rules together and
13 just provide for this transition instead of doing it on
14 an order by order basis. But it's the same difference,
15 whether you do it order by order or whether you somehow
16 combine the two field rules into one.

17 MR. CHAIRMAN: That's what we decided but this is a good
18 bridge, I think, perhaps.

19 MR. SWARTZ: Sandy, I personally -- you guys can do whatever
20 you want, but I think it would be a waste of time to go
21 back and amend these orders because you put this in -- I
22 mean the Oakwood orders. Because you put this in every
23 order you issue so that the people affected by the order
24 don't have to go look up the Oakwood order. I mean, I
25 assume that's why when I get an order from you it always

1 has this stuff in there rather than saying go look it up.
2 MR. RIGGS; Well, it doesn't include everything in the Oakwood
3 order, but for the allocation purposes it does so that
4 they know how the royalty's been calculated.
5 MR. SWARTZ: Right. So if you're going to continue to do this
6 why amend the orders or the Oakwood field rules? If
7 you're going to stop doing this then I would say fine.
8 MR. CHAIRMAN: I have a motion and a second. Any further
9 discussion? All in favor signify by saying yes. (ALL
10 AFFIRM.) Opposed say no. (NONE.) We have a unanimous
11 approval. Thank you.
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ITEM III, IV

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3 MR. CHAIRMAN: The next item on the agenda the Board on its
4 own motion will consider an amendment to a supplemental
5 order to withdraw funds from escrow pertaining to pooled
6 Unit V-2717. This is docket number VGOB-94/04/19-0441 in
7 regard to interest held by Sharon Curtis. Also the next
8 item is the Board on it's own motion will consider an
9 amendment to a supplemental order to withdraw funds from
10 escrow pertaining to pooled Unit V-2716, docket number
11 VGOB-94/04/19-0442 in regard to interest held by Sharon
12 Curtis. We'd ask any parties that wish to address the
13 Board in this matter to come forward at this time. The
14 record will show there are none. I'll ask Ms. Riggs to
15 give the Board a general discussion of this application
16 for withdrawal of funds.

17 MS. RIGGS: These pooling orders were EREX orders. They were
18 conventional units and at the time they were pooled
19 Sharon Curtis was unknown and unlocatable. Therefore,
20 her interests were escrowed with the escrow agent.
21 Subsequent to that pooling order being entered and
22 subsequent to the supplemental order being entered Sharon
23 Curtis was located and, in fact, her name was different
24 because she had married in the meantime. So there's an
25 alteration as a name change as well as an address that

1 was supplied. The supplemental order was amended
2 accordingly and our office prepared and sent out to Ms.
3 Curtis applications to withdraw funds out of the escrow
4 account. She has executed those applications and
5 returned them to me for presentation to the Board and the
6 Board's entry of an order which would authorize the
7 escrow agent to pay any existing funds to her directly
8 and order the operator in the future to make payments to
9 her without escrow. I have the applications which we can
10 pass around. There's two copies of each for them to
11 review. And what we're seeking is approval from the
12 Board for Benny to execute the order contained on Page 2
13 on behalf of the Board -- Page 3. I'm sorry.

14 (AFTER A BRIEF PAUSE OFF THE RECORD, THE HEARING
15 CONTINUED AS FOLLOWS:)

16 MR. CHAIRMAN: Are there any questions?

17 MR. LEWIS: I'd like to make a motion. I make a motion that
18 we give Benny the right to withdraw those.

19 MR. EVANS: Second.

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

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

22 Opposed say no. (NONE.) Unanimous approval. Thank you.
23
24
25

1 MR. CHAIRMAN: That concludes today's agenda. Let me ask you
2 on another business matter, have you all received a copy
3 of the new travel regulations? If not we need to send
4 those to you. Tom, would you send the Board a copy of
5 those travel regulations? There are some changes in
6 there and what we'll do is next month at the close of the
7 meeting I'll do a general discussion review of that with
8 you, but I'll give you a change to review them first.
9 What they're doing is paying more of a per diem, set
10 amount for meals per day. We do have a real strict time
11 frame on getting the vouchers in. We're suppose to do
12 that within five days after the -- like today's meeting
13 and things like that. So if you'll work with us on that
14 and I know you will it will help us be prompt in re-
15 imbursement for those charges and meeting the standards
16 that we have to meet. So we'll mail those out to you and
17 have a discussion on that. I mentioned this to a couple
18 of Board members but I want to say to all of you that I'm
19 thinking about setting for the September agenda a general
20 discussion of royalty payments and what all might be
21 included in that. Specifically hearing from operators
22 who have force pooling orders a discussion on how they
23 make the royalty payments and what costs are included and
24 excluded from that, specifically transportation costs.
25 Is that okay with everyone to do that?

1 MR. LEWIS: It's a good idea.

2 MR. CHAIRMAN: Is there anything else that you think in coming
3 months -- any of the prior field rules or anything else
4 that you think we ought to think about reviewing in the
5 future now that it appears our agenda is such we can look
6 into a few things. Looking over our shoulder on things
7 we have done, is there anything that you think would be
8 right for review?

9 MR. EVANS: One thing that really has nothing to do with us
10 and that would be the transportation costs and some of
11 the costs that are being charged that some of the oil and
12 gas lessors are complaining about, specifically our
13 friend who has written the Governor and everybody else in
14 the world.

15 MR. CHAIRMAN: We should get that discussion if we set the
16 agenda to discuss royalty. We'll bring the transport-
17 ation costs out because we do have companies handling
18 that matter differently and because of that it's probably
19 right for us to take a look and see what's going on, what
20 we think's a reasonable way to handle it, whether or not
21 our current orders address everything they should or if
22 we should consider changing any of those.

23 MR. KELLY: What's the status of that situation Mr. Franks?

24 MR. EVANS: That's who I was talking about.

25 MR. CHAIRMAN: Well, in general Secretary (Inaudible.) has

1 responded to Mr. Franks in telling him that any matters
2 that come under the Board's review that the Board would
3 consider. He has a right to petition the Board. He
4 hasn't done that directly. He has informed us of
5 concern. We will be addressing parts of that concern in
6 September and he'll have an opportunity to address the
7 Board. And other than that on these private lease
8 matters he's informed him that those are matters that
9 have to be resolved either privately or in court.

10 MR. KELLY: I think you'll find a lot of those situations are
11 tied right back to a lease provision.

12 MR. EVANS: The only concern on that would be a deemed to have
13 leased situation.

14 MR. KELLY: What?

15 MR. EVANS: A deemed to have leased situation.

16 MR. KELLY: Which lease provisions do you type up.

17 MR. CHAIRMAN: Right. That's what we get into and that's why
18 it's important. That will take substantial discussion
19 because we will need a briefing on distinguishing those
20 kinds of things, like the deemed to have leased and --

21 MR. KELLY: That gets right back to the area of the JOA and
22 we've never established a standard form for that either.
23 But it's certainly been discussed. What is the feeling
24 about that? Do we still just keep hands off of that type
25 of thing?

1 MR. CHAIRMAN: I think a lot could depend on what we hear in
2 September and how we feel as a Board whether or not we
3 continue that over and have further discussion or if we
4 feel like we've got information that causes us to want to
5 leave it like it is or make changes or what have you.

6 MR. KELLY: I mean, there are industry standards to all these
7 documents.

8 MR. CHAIRMAN: Right. I hope that we will be able --

9 MR. KELLY: And modify from that.

10 MR. CHAIRMAN: Would you folks be interested in September for
11 us to have Tom survey Pennsylvania, West Virginia,
12 Kentucky to see what they're doing in regard to royalty
13 payments, what costs are charged and not?

14 MR. EVANS: Uh-huh. That would be interesting to see what
15 differential there is, if any.

16 MR. KELLY: And if there's a standard way of doing it.

17 MR. CHAIRMAN: Would you do that, Tom, survey the other states
18 and see how they handle royalty payments, what costs are
19 included and excluded and specifically how they handle
20 transportation costs?

21 MR. EVANS: Benny, there's one other issue that we've talked
22 about a little bit and it deals with the Virginia
23 Pocahontas Mine. When an entire mine is sealed but not
24 -- what is that? As long as that unit was open because
25 they're doing the reclamation, as you well know, and what

1 is that?

2 MR. CHAIRMAN: Right. What does that come under.

3 MS. RIGGS: The sealed gob unit?

4 MR. EVANS: See, it's the whole mine.

5 MR. CHAIRMAN: It's the entire mine. When they actually pull
6 out. They've completed mining and they're actually
7 sealing the shafts.

8 MR. EVANS: They never sealed -- they didn't isolate panels
9 and they didn't put anything else in it. I mean, it's
10 the Ratcliff Gas Company and some of the other wells.
11 But that's something that probably we need to just think
12 about as to what kind of an animal that is because right
13 now --

14 MR. LEWIS: All that cost when they seal those looks to me
15 like would be part of the mining industry's costs, not
16 all the gas company.

17 MR. CHAIRMAN: That's what I think he's getting at. That
18 would be good to look into to see how -- here again
19 you're getting into what are these charges. One thing we
20 haven't done too, and I'm not trying to overload us, but
21 if we do have these agendas like today if we could get
22 some things -- one thing that might be good to set for a
23 future agenda is to go back now that we have information
24 under -- production information, etcetera under these
25 various field rules is just to have them come and say,

1 "Now, you've said that you're draining 80 acres. What
2 are you draining?"

3 MR. LEWIS: They don't really know.

4 MR. CHAIRMAN: And what kind of information do we have. At
5 least just to test our orders.

6 MR. KELLY: Using the production history and then figure some
7 declines from that and you can tell if your reserve
8 projections are --

9 MR. EVANS: Anywhere close.

10 MR. CHAIRMAN: And look at the costs that are being charged
11 back to the well. Like Max was just talking about, part
12 of this is to look and see if you're sealing a mine is
13 that being billed back to the gas or is that being a part
14 of mining costs? That's all part of what we should be
15 looking at because if you're an affected party that has a
16 tremendous economic impact to you.

17 MR. LEWIS: I've thought a lot about that, why they were
18 charging it all to the gas companies and the coal
19 industry wasn't sharing the cost of sealing the gob.

20 MS. RIGGS: We've had that debate here. Bill Mason usually is
21 the one.

22 MR. LEWIS: I think it's partly the cost of the mining myself.

23 MR. EVANS: But it also is a benefit to -- if nothing else
24 splitting that cost.

25 MR. LEWIS: There's no way you can mine it without doing it.

1 So it looks to me like --

2 MR. EVANS: Well, the length that you go to might be a little
3 bit different. If you're going to recover the gas for
4 commercial purposes the seal is a little bit different
5 than if you are just going to seal and move on.

6 MR. KELLY: Where do you draw the line?

7 MR. EVANS: That's the rough part. What is extra for commerc-
8 ial production of gas versus just evacuation. Because if
9 it's VVHs you're just going to blow it out through there
10 as quick as possible and rely on negative pressure to
11 suck it up the well bores and you're seals aren't going
12 to be what you would call the same quality, perhaps, as
13 commercial production gas is. Benny, is that --

14 MR. CHAIRMAN: That's right.

15 MR. EVANS: That's my understanding of the situation. If I
16 were a coal operator it would be my understanding of the
17 situation, too.

18 MR. CHAIRMAN: Anything else that you folks can think of that
19 you'd be interested in taking a look at?

20 MR. EVANS: I've got just a general question since we're --
21 I'll ask Tom. That field that we overlaid on the
22 Oakwood that Cabbot drew up and what not for the sand-
23 stone unit, is there any drilling activity in that?

24 MR. LEWIS: Just coalbed methane gas.

25 MR. FULMER: No.

1 MR. KELLY: That's Burea?
2 MR. EVANS: Because I have not seen anything.
3 MR. FULMER: Cabbot's pulled out.
4 MR. KELLY: I think maybe Consol was talking to GP about that
5 acreage, weren't they?
6 MR. FULMER: Yeah. There's negotiations going for that
7 acreage from Georgia Pacific.
8 MR. KELLY: Because GP's so tough to deal with apparently.
9 MR. CHAIRMAN: Tom, would you tell the Board about the
10 applications in the Richmond coal basin, just a general
11 update.
12 MR. FULMER: Currently we have three applications for drilling
13 of wells by basically Maverick Oil Company. That's who
14 is going to be the operator instead of a company called
15 Comoco --
16 MR. CHAIRMAN: You may need to speak up.
17 MR. FULMER: It's basically a company who -- the leases are in
18 the name of Comeco which is --
19 MR. KELLY: How do you spell that?
20 MR. FULMER: C-O-M-E-C-O. But it's basically Rick Counts and
21 Richard Whittington which Richard Whittington owns Maverick
22 Oil Company down in Lee County. We've got three appli-
23 cations from Maverick Oil Company and they're in the
24 Winterpark section of Chesterfield County. They're in
25 the South Richmond basin -- coal basin. Basically right

1 now back in April they submitted their applications plus
2 the EIA that they're required to submit for that area.
3 We have been evaluating their applications. We've had to
4 move a couple of them out of some drainage areas and so
5 forth. They're projected at a very shallow depth of less
6 than 2,100 feet. And they're basically -- really for
7 this type of drilling what they're going to do is
8 basically wildcat in nature although Mr. Counts bought a
9 lot of Amoco information when Amoco cored that area out
10 in the Richmond basin. And they're hoping to develop
11 coalbed methane and if these three work out then they're
12 going to, I guess, expand it or go in that direction to
13 expand it. If they do produce gas they'll be going in
14 the Commonwealth gas system which is not too far from
15 there. It's about three miles away. But it's in
16 Chesterfield County which is fastly becoming rural to
17 city life, so to speak, because it's expanded way a lot
18 in Chesterfield County. What use to be wilderness in
19 Chesterfield is no longer wilderness. It's pretty much
20 -- population has come up.

21 MR. CHAIRMAN: And they're fairly well through the application
22 process on things to do. But it's feasible to say that
23 drilling could start early August, right?

24 MR. FULMER: It's feasible.

25 MR. LEWIS: Do you have any history on their core drilling or

1 any samples of any kind?

2 MR. FULMER: Huh?

3 MR. LEWIS: Do you all have any history or anything on their
4 core drilling?

5 MR. FULMER: Not what Amoco did.

6 MR. EVANS: That's probably criteria information.

7 MR. FULMER: The last wells were drilled in --

8 MR. CHAIRMAN: Tom, point of clarification, when Amoco did it
9 it was coal exploration, not gas.

10 MR. FULMER: Coal exploration.

11 MR. CHAIRMAN: So that's something that's completely confiden-
12 tial by them.

13 MR. KELLY: Is that under statewide spacing?

14 MR. FULMER: These are on statewide spacing.

15 MR. KELLY: What kind of units are they proposing, 80 acres?

16 MR. FULMER: No. They haven't proposed any units. They're
17 just going to be drilling on statewide spacing.

18 MR. CHAIRMAN: Do you have any information as to whether or
19 not you have any pooling situations here?

20 MR. FULMER: No. He owns all the leases in the area. A lot
21 of them he accumulated from Meryl --

22 MR. CHAIRMAN: So at this time you don't anticipate that.

23 MR. FULMER: No.

24 MR. CHAIRMAN: If we were to we'd hold a hearing up in that
25 area, I think, would be the only fair thing to do. But

1 as Tom's saying -- I'm just asking him the questions
2 here, but it appears there would not be that situation
3 with these three wells. If there are other wells there
4 will be because once the -- those leases will get harder
5 to get.

6 MR. EVANS: It's my understanding he's got a fair amount of
7 acreage.

8 MR. FULMER: A lot of acreage he picked up. The only thing
9 about these wells, again we don't know anything about
10 what they'll produce. No record of anybody producing any
11 gas out there. We have relative little information on
12 some drilling that was done by Meryl.

13 MR. KELLY: Was his close to where this is?

14 MR. FULMER: His was much further north. It's in the lower
15 southern extension of the basin, right now the Winterpark
16 section.

17 MR. CHAIRMAN: If you're not familiar with Winterpark area in
18 Richmond it's a historic area. There's a lot of develop-
19 ment in that area now, a lot of very affluent develop-
20 ment.

21 MR. KELLY: You have to comply with the land use policy and
22 the subdivision rules, right?

23 MR. CHAIRMAN: Right. Of course, as Tom said, talking about
24 DEQ, it did come under the Chesapeake Bay type additional
25 requirements that occur up there because he fell right

1 in the other side of the line that picked those kinds of
2 details up.

3 MR. FULMER: Just to give you an example, years ago when Meryl
4 was drilling which was the latter part of the seventies,
5 first part of the eighties, in 1983 I always kid Gene
6 about where he lives out near the lake that "reservoir"
7 there was no houses within ten miles of that place and
8 they said nobody's going to get around that reservoir.
9 Nobody. Said they wouldn't give them any permits. If
10 you pass that reservoir on the way into Richmond on 360
11 you'll step out your door and you'll be right in the
12 reservoir because they've built condominiums all the way
13 around it. So politics have changed in that county and
14 it's quite different now. Winterpark use to be nothing
15 but forest. Continental Can use to own big, hugh amounts
16 of forest area in Winterpark.

17 MR. CHAIRMAN: Do you have any updated information -- I'm not
18 trying to just delay you all. I'm trying to brief you on
19 a few things while we have some time -- on the gas
20 storage in the Saltville area? Are you all familiar with
21 that at all? We touched on it when Virginia Gas --

22 MR. KELLY: What's the status of it?

23 MR. FULMER: They're still evaluating some of the old wells up
24 there that Olin Mathis had. They're still going around
25 and around, I think, with DEQ about the operation basins

1 or what they intend to do with that.

2 MR. CHAIRMAN: Just so that they understand, they're talking
3 about potentially solution mining?

4 MR. FULMER: Solution mining.

5 MR. CHAIRMAN: To create caverns in the salt mines to then
6 store gas back in it.

7 MR. FULMER: I'm sure as they -- and this is kind of connected
8 in. Mike is through with the Early Grove certification
9 which is the 25th, I think, of this month. July 25th is
10 the hearing with the State Corporation Commission to get
11 his certification for storage and then he's going to turn
12 his attention more to the Saltville area.

13 MR. KELLY: He told me he had Early Grove up to nine million a
14 day deliverability now.

15 MR. EVANS: I talked to him last week or ten days ago and
16 asked him how it was going and he said Early Grove's
17 going fine and Saltville's coming right along.

18 MR. CHAIRMAN: Now, that's one company there and these other
19 companies with the amount of drilling that's been going
20 on and the capacities to move that gas, the storage is
21 going to become more and more of an issue. You're going
22 to have it right here at home, so to speak, Buchanan
23 County specifically. It will almost have to occur and,
24 of course, I don't know where it will be, whether they'll
25 try to go to one of the sealed deep mine or what they'll

1 try to go to. But that will be another issue we'll be
2 dealing with.

3 MR. EVANS: That's one of the other reasons for asking what
4 kind of an animal is that.

5 MR. CHAIRMAN: I understand. So it's going to be a bigger
6 issue for us. We have collected a lot of information --
7 not to just bombard you -- but as we get into that we
8 have, I guess, through the Eastern Mineral Law Institute
9 and through the Interstate Oil and Gas Compact Commis-
10 sion. Sandra attended the Eastern Mineral Law Institute.
11 So I attend all GCC meetings trying to gather as much
12 information as we can, experience from these other
13 states. Pennsylvania and New York have substantial
14 experience as an example in storage. So we have gathered
15 a lot of data as we get into some of these more complex
16 issues such as salt cavern storage, sealed deep mine
17 storage and some of that. I'm not sure anybody's really
18 doing sealed deep mine storage at this point. And we may
19 be the first if that issue comes up.

20 MR. LEWIS: That's something that's been going on for about 50
21 years.

22 MR. CHAIRMAN: Yeah. Underground storage.

23 MR. LEWIS: Yeah. That's been going on for years and years.

24 MR. KELLY: Are they still mining gypsum in Saltville?

25 MR. EVANS: Plasterco.

1 MR. FULMER: Very limited.

2 MR. EVANS: They're still up there. They're trying to keep
3 the rest of the town from falling in.

4 MR. FULMER: Just to go along with this and I'll just pass
5 this along. I was talking with some people from EREX. I
6 don't know if you remember -- some people in oil and gas
7 remember about the salt dome collapsing down in Louis-
8 iana.

9 MR. EVANS: It went right the hole, sucked everything down.

10 MR. FULMER: Well, apparently EREX is into that -- has bought
11 that and they are dewatering that salt mine.

12 MR. KELLY: How do they get a seal in?

13 MR. EVANS: That was my question.

14 MR. CHAIRMAN: I don't know if any of you have read it, but I
15 can get a video tape showing in New York they had some
16 big salt dome mining going on for underground gas
17 storage and water started coming in from everywhere and
18 solutioned that area naturally. And they have had
19 interstate highways falling in. They've had major
20 residential areas and all that -- so I'm saying that for
21 the purpose of not to say that would happen here, just
22 saying there's a lot of significant and very real issues
23 that we'll have to deal with that will come to our
24 attention as we move into these various areas. That will
25 come up as it deals with salt mining or solution mining

1 and underground storage in salt caverns. And with the
2 sealed deep mine, if that issue comes up it will be
3 issues such as do we even know where exploration holes
4 were drilled and what kind of sealing took place there,
5 how far subsidence of the rubble zone has occurred upward
6 from the mine and a number of issues will come up.
7 What's it going to do to the water tables, etcetera.

8 MR. EVANS: Also what's the permeability of the coal versus
9 what -- you might have a sealed mine here but at 400 feet
10 or 4,000 feet what's the -- if you increase the gas
11 pressure what does that do to migrational flow through
12 the coal seam or whatever else.

13 MR. CHAIRMAN: There are substantial technical issues that
14 will come to our attention and this is a very real --
15 it's something that has to occur because they have to
16 have the capacity to store in order to be able to deliver
17 a continuous supply because they moved away from the
18 arena of like playing spot market to the arena of being
19 major producers now here in Virginia and that's what's
20 going on.

21 MR. EVANS: Particularly on a public utility basis. They have
22 to have the deliverability.

23 MR. KELLY: To meet peak demands.

24 MR. CHAIRMAN: That's right. Anything else, Tom, that you
25 think ought to --

1 MR. FULMER: I've got these travel -- if you want to hand them
2 out to them.

3 MR. CHAIRMAN: You want to tell them what you're asking them
4 to do here, Tom?

5 MR. FULMER: This is kind of a verification. What's happened
6 in the past is that we have -- basically you've sent in
7 your expenses. We've filled out the expense account and
8 you signed them without even looking at the expense
9 account. So that's a no no. What this is is that you
10 are to fill these out -- the orange sheet. Fill these
11 out and return them to us as soon as possible. This is
12 attached to the expense sheet which you'll also sign and
13 we'll attach it to it and then that's how you'll get your
14 payment. In other words, we'll basically no longer fill
15 out these sheets because you're verifying something
16 before it's actually done. If you don't send them in you
17 won't get paid. That's the bottom line.

18 MR. EVANS: I haven't got paid this year yet for any of them.

19 MR. CHAIRMAN: Seriously?

20 MR. EVANS: Seriously.

21 MR. CHAIRMAN: Where are they?

22 MR. EVANS: That's a good question. I haven't got any check.
23 That's why I was going to fill one of those out and
24 say --

25 MR. CHAIRMAN: Not should not have occurred. You should get a

1 check within two weeks after every time you fill one of
2 those out.

3 MR. EVANS: See, one of the times I know was probably at the
4 quarter change. March's meeting and April -- March. I
5 haven't been paid for May and haven't been paid for
6 March.

7 MR. CHAIRMAN: Tom, this orange sheet is something you're
8 trying to do to make it a little more convenient? They
9 could fill out the regular voucher?

10 MR. FULMER: Yeah. They could do that but this would serve
11 the same purpose.

12 MR. CHAIRMAN: All you've done is offer them an alternative
13 that may be a little simpler, if it is. If it's not the
14 green one is fine. We need to check in on -- has anyone
15 else had trouble getting reimbursed?

16 MR. EVANS: It's only this year.

17 MR. CHAIRMAN: Since January?

18 MR. EVANS: That's when the problem started. Remember way
19 back when I mentioned to you I did a quick claim and
20 whatever else -- the per diem had dropped down. That was
21 the last check I got because after that there wasn't
22 anymore checks.

23 MR. CHAIRMAN: That will teach you. Ha, ha. That shouldn't
24 have happened. Something's gone wrong here. I'll check
25 into that today. We'll get you an answer today. Is

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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 proceedings of the Virginia Gas and Oil Board meeting held on July 18, 1995 at the Southwest Virginia 4-H Center, Abingdon, Virginia, were taken by me and that the foregoing is a true and correct transcript of the proceedings had as aforesaid 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 8th day of August, 1995.

Deborah J. Bise
DEBORAH J. BISE
NOTARY PUBLIC

My commission expires September 30, 1996.