# VIRGINIA GAS AND OIL BOARD

# MONTHLY BOARD TRANSCRIPT

**MAY 1997**

VIRGINIA OIL AND GAS BOARD

HEARING OF MAY 20, 1997

9:00 A.M.

AT THE SOUTHWEST VIRGINIA 4-H CENTER

HILLMAN HIGHWAY

ABINGDON, VIRGINIA

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Appalachian Court Reporting Services, Inc.

P. O. Box 833

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May 20. 1997

This matter came on to be heard before the Virginia Gas and Oil Board on this the 20th day of May, 1997 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. I'm Deputy Director for the Virginia Department of Mines, Minerals and Energy and Chairman of the Gas and Oil Board. We'll have the Board members introduce themselves.

MR. BRENT: My name is Mason Brent. I'm from Richmond and I represent the gas and oil industries.

MR. GARBIS: My name is Dennis Garbis. I'm from Fairfax County, Northern Virginia. I'm a public member.

MR. LEWIS: Max Lewis from Buchanan County, a public member.

MS. RIGGS: I'm Sandra Riggs with the office of the Attorney General.

MR. HARRIS: I'm Bill Harris from Big Stone Gap, a public member.

MR. KING: I'm Clyde King from Abingdon and I'm a public member.

MR. WILSON: I'm Bob Wilson, Assistant Gas and Oil Inspector sitting in for Tom Fulmer today.

ITEM I

MR. CHAIRMAN: The first item on today's agenda is the Board will consider a petition from Equitable Resources Energy Company under Section 45.1-361.22 for modification of a previously issued Board order for the Nora Coalbed Gas Field. The purpose of this application is for redefining the boundary lying between the coalbed methane field created by the Nora order and the coalbed methane gas field created by the Oakwood I and II orders to exclude the area in Buchanan County, Virginia. I won't read all of the points that are in the order. This is docket number VGOB-93/03/16-0348-02 continued from April. We'd ask the parties that wish to address the Board in this matter to come forward at this time and introduce yourselves, please.

MR. KAISER: Mr. Chairman and members of the Board, Jim Kaiser on behalf of Equitable Resources Energy Company. Our witnesses in this matter will be Mr. Dennis Baker as to notice and land and Mr. Bob Dahlin as to technical issues. If we could start with Mr. Baker. Mr. Dahlin needs to make copies of one of his exhibits.

MR. CHAIRMAN: Before we start, are there any others that wish to address the Board in this matter? The record will show there are none. You may proceed.

COURT REPORTER: (Swears witness.)

DENNIS R. BAKER

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

DIRECT EXAMINATION

BY MR. KAISER:

Q. Mr. Baker, would you state your name for the record, who you're employed by and in what capacity?

A. My name is Dennis Baker. I'm employed as senior landman by Equitable Resources Energy Company.

Q. Do your responsibilities include the land involved in this modification that Equitable is seeking?

A. Yes, it does.

Q. Are you familiar with Equitable's application in this matter which was filed on March 12th, 1997?

A. Yes, I am.

Q. How much acreage is involved in the area that we are seeking to be modified?

A. There's approximately 1,407 acres.

Q. What percentage of this acreage is under lease to Equitable Resources Energy Company?

A. There's approximately 74 percent that is under lease to

1 Equitable Resources. There is approximately 24 percent
2 that is leased to Buchanan Production Company. There
3 is about 2 percent of the area that is unleased that is
4 owned by an individual third party.
5 Q. Have all the mineral owners, oil and gas lessees,
6 coalbed methane lessees, coal lessees, oil and gas
7 operators and coal operators within this area that
8 we're seeking to modify received notice of this hearing
9 as required by statute and regulation including the
10 Popts/Combs heirs that faxed in their notice reserva-
11 tions at the scheduled hearing back in April?
12 A. Yes, they have.
13 Q. Has Equitable filed an affidavit of mailing detailing
14 proof of notice to these mineral interest owners and
15 has Equitable filed an affidavit of publication twice
16 evidencing publication notice?
17 A. Yes, we have.
18 MR. KAISER: I have no further questions of this witness at
19 this time, Mr. Chairman.
20 MR. CHAIRMAN: Any questions, members of the Board?
21 (Witness stands aside.)
22 MR. CHAIRMAN: We will wait for your other witness.
23 (Pause.)
24 COURT REPORTER: (Swears witness.)
25

ROBERT A. DAHLIN, II

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

DIRECT EXAMINATION

BY MR. KAISER:

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

A. My name is Robert A. Dahlin, II. I'm employed by EREC as a production specialist.

Q. Have you previously testified before this Board on similar matters and have your qualifications as an expert witness previously been accepted?

A. Yes, I have.

Q. Are you familiar with Equitable's application in this matter and do your responsibilities include the lands under which we seek to modify the various Board ordered field rules?

A. Yes.

Q. Did you previously testify at a hearing in September of 1996 where Equitable Resources Energy Corporation sought a similar modification?

A. Yes, I did.

Q. Did the Board grant an order pursuant to that hearing

granting the relief sought at that hearing?

A. Yes.

Q. In conjunction with the exhibits that you've prepared for this hearing could you explain to the Board the exploration activity and technical data that has been collected by Equitable since the hearing held in September of 1996?

A. All right. I'm going to give you an exhibit that will relate to the second feature I'm going to talk about. Just as a matter of introduction, this is the exhibit we had used at the prior hearing. The area between the green and the blue grid defines the area we modified. So the area under the existing order was this which corresponds to this area here. What we're asking for now is this area in the highlighted red line. The yellows are acreage within that. Since the last hearing in September we have drilled four new CBM wells. The first of which we had discussed in that hearing and the well that was permitted in the area that we modified was well 2400. We drilled three other wells; 3431 which is here, 3598 which is in the adjoining unit and then another one over here, 3432. What that has allowed us to do is to establish much more control and we've remapped the structural feature that we're trying to develop based on those four wells.

We also talked at that time of the last hearing about gas content. We have more information that further confirms the amount of gas in place. We again are in the range of 350 cubic feet in this well, 3431. Previously our structure was thought to be trocated at the end of this grid line which is this grid line. The major change was that since we have added four new wells, core holes, and then additionally tied in -- let me switch this map -- tied in these wells to the northeast. We now find this feature we think extends to about this extent. The second major factor is that we're now into about six months worth of reservoir modeling into a second feature that we're playing as a look a like to this geologic feature. That's the exhibit I passed out to you. That study covers approximately 40 wells. That feature is called the Frying Pan Anticline and that structure is drawn on these wells right here. The significance of our reservoir modeling on all --

MR. HARRIS: Do we have that?

MR. CHAIRMAN: We've got it coming.

A. (The witness continues.) That structure is drawn on these wells here. The primary situation that we've found after six months worth of study is that all those wells were drilled on 60 acre spacing. And from

drilling in 1991 until the current time our modeling shows no interference between the wells. Therefore, we're saying that 60 acres is appropriate. It's a structural feature. It is a lookalike confirmed by recent drilling of the four wells and that feature extends onto our acreage into this area. So what we've done is we've just gathered more data and we've established more control and we've found that the field that we're producing from extends into this area and that 60 acres is appropriate based on our reservoir model.

Q. Bob, while you're up there let me ask you just a couple of other questions. When we came before the Board in September you talked about tieing in information on the wells to the northeast. Was that information available in September?

A. It was available in that it was of public record, but because of our development -- we concentrate our efforts in the Nora Field and we've been expanding and developing in this direction. The structure map that we had prepared before, which was this one, we had mapped on one base -- one horizon. We did not have the information tied in according to these wells. Since September, in the past eight months we've expanded the prospect and that's the source of the new information.

1 Q. So based upon the recent drilling of the four addition-
2 al wells the modeling that you've done on a similar
3 structure, similar feature in the Frying Pan field --
4 those are basically the reasons that we're back before
5 the Board seeking the modification. We've remapped the
6 structure, extending into this 1,400 acres that we're
7 seeking to modify, and those are the reasons that we
8 are back before the Board today seeking this additional
9 modification?
10 A. That's correct.
11 Q. In your opinion does development on a 60 acre basis in
12 this area that we're seeking to modify represent the
13 most efficient way to recover the reserves, protect
14 correlative rights and does it represent the economic
15 optimum for the operator?
16 A. Jim, it's an appropriate spacing. We're six months
17 into our reservoir modeling. We see no interference at
18 60 acres. That would lead you to believe that 60 acres
19 is from our economics at least appropriate. The
20 spacing actually could be smaller, but 60 acres is
21 appropriate. Yes.
22 MR. KAISER: I have no further questions of this witness at
23 this time, Mr. Chairman.
24 MR. CHAIRMAN: Mr. Dahlin, the wells that you're saying
25 you've tied in that are northeast, are those Equitable

1 Resource --

2 THE WITNESS: No, they're not. I believe they were drilled

3 under Consol. I'm not real sure of the venue.

4 MR. CHAIRMAN: When you say you've tied them in to your

5 modeling --

6 THE WITNESS: No. Benny, we tied those into our structural

7 mapping. The modeling so far has been done only on the

8 Frying Pan Anticline. The significance of that is that

9 we feel very strongly that this coalbed methane

10 production is very closely related to structural

11 features and the correlation is very strong between

12 that structural feature. I've covered it up here

13 again, but you can see how these are all grouped in

14 roughly spherical nature with a slight trend in the

15 northeast. That also parallels the structural incline

16 of an anticline that is what we're developing on the

17 Frying Pan Anticline that's in that exhibit.

18 MR. CHAIRMAN: Which extends to where in relation to what

19 you have up there?

20 THE WITNESS: Your structure in front of you is this

21 grouping of wells.

22 MR. CHAIRMAN: Right.

23 THE WITNESS: It plunges both to the northeast and to the

24 southwest. That's very similar to what we're seeing

25 here. We do know that this feature plunges before it

gets to these wells. We do not know the exact limit but we feel this is reasonable based on the current mapping. Now, if there were more wells drilled between here this could be either truncated earlier or it could extend further. We just do not have the control at this point. But we feel this is a reasonable interpretation currently. There are core holes in here that have given us some more information. It's not complete. But these are all the coalbed wells that are tied to it.

MR. LEWIS: Do you plan on drilling any more core holes for testing that?

THE WITNESS: No, we do not. These were foreign core holes that we just have access to through the State. This is the extent of our acreage and we don't have any rights to drill anywhere other than there. So our development would be limited to in here or whatever acreage we can pick up later.

MR. KING: Mr. Chairman, I have a question. My understanding is that the difference between the Oakwood and the Nora is the 60 and 80 acre plot?

THE WITNESS: That's correct.

MR. KING: The reason you're doing this, is it more economically feasible to drill a well in a 60 and you can recover more gas than you can out of an 80? Is that

the basic difference?

THE WITNESS: The basic difference is to -- what we're all about in trying to determine spacing is to find the optimum and to produce the in-place reserves at an economically acceptable rate. What generally happens -- and we talked about it in the last hearing -- was generally speaking coalbed methane gas contents increase to the northeast and decrease to the southwest. What we're saying is that the larger the gas content or the gas in place is the more economically viable it makes a larger unit. If the coals are thinner, which also is the case to the southwest, and less gas is in place you need a smaller unit to capture the existing in-place reserves. What we've shown by our reservoir modeling is that since 1991 through 1997 we're drilling ongoing and we're seeing no interference from the new wells to the old wells. We know that 60 acres is appropriate. We feel we may be able to develop a lesser spacing but our economics are appropriate at 60 acres. What it amounts to is that the smaller unit provides for more dense drilling patterns. What you don't want to do is over drill. That's an economic waste. There's no sense in drilling two wells that would drain the same area that would be drained by one well. That's what we're constantly trying to find

1 and find out the appropriate size.
2 MR. KING: Is this in Buchanan County or Dickenson?
3 THE WITNESS: It's in Buchanan County. This is the county
4 line.
5 MR. KAISER: Mr. Dahlin, could you kind of reiterate for
6 the Board -- I don't know if everyone that's here today
7 was present at the September hearing, but could you
8 kind of reiterate a little bit the background and
9 history again of these two fields and the fact that
10 this is an area where the two fields have grown or are
11 growing together and it's sort of -- for lack of a
12 better term -- a grey area? That may sort of help
13 position them, so to speak.
14 THE WITNESS: Well, that's exactly the case. Up until 1991
15 we had no wells as far northeast as this field. I
16 believe this is a seven and a half minute quadrangle
17 right here. So we're talking about five miles. In the
18 past five years we've advanced five more miles toward
19 the Oakwood Field. I'm not sure of their development
20 but when we were in this area there was no control from
21 Consol. As we advance to the east we get closer to
22 their control. And really what we're trying to do is
23 further refine the boundary between the two.
24 MR. CHAIRMAN: Let's cut to the chase here. When we're
25 doing field rules the Board received extensive techn-

ical testimony on the 60 acre units in the Nora Field and likewise, extensive testimony in the Oakwood I and II Field. A whole lot of what you've talked about has been based on what lease acreage you have and those kinds of things. The Board has to make sure these lines are drawn based on technical evidence of the -- and you touched on the density of the well and all that. But we want to be making decisions, I think, on the technical side of where those field boundaries actually are. Those field boundaries are starting to wiggle on us now and the wiggle appears, quite frankly, to be based on lease acreage and not so much on -- more on lease acreage than it is on technical evidence. Help us. Go right to that and help us with that.

THE WITNESS: One is the cause of the other, Benny. What happens is we -- what we're doing is we're basing this on the most current data because we've got a lease position which affords us the ability to gather new data. The structural feature has been remapped and extended based on new drilling, nothing more. The reservoir simulation is state of the art. There are few people in the industry doing reservoir simulation and very few as you go into this area. We're real proud of what we've found out there and it is the most current up to date engineering data that's available.

The original field rules were the best we knew at the time. And this is the best we know currently and it is based on sound engineering study. I might say too that once we advance this feature and we drill on the crest of this anticline that we won't say or we won't find that this feature might be up in here. It doesn't relate to our acreage other than it would extend beyond it. But it looks like it's relative to our acreage but it's only because it afforded us data points that we did not previously have.

MR. BRENT: How did the original line between the Nora and Oakwood become established?

THE WITNESS: You're even predating my knowledge of when this happened. I don't know if you were at the hearing in September, but Tom Fulmer went through the timing and he showed the extent. That's another point, that what we're dealing with here is an area of overlap between the two. I really don't know -- maybe Dennis through his knowledge in the land department could give us an extent of the original field rules. But I don't know it. It was beyond this point. The issue then became was we had a field that was established further than this and then OXY modified our field, superimposing a larger grid over our acreage that was previously existing and now what we're doing is that we're proving

up the applicability of the smaller original grid size to go back into the area we originally had in place. All I can tell you is it was further than this acreage.

MR. BRENT: What you're saying is that your technical advancement is following your leases. Is that what you're saying?

THE WITNESS: Yeah. That's right.

MR. KAISER: When the leasehold allows for that to happen because as we drill that acreage that's under lease -- in other words, this technical data and the modification we're seeking is essentially being driven by the drill bit and the modeling that was done down in the Frying Pan.

MR. BRENT: That's what gets back to my original question of how the line was originally established between Nora and --

MR. KAISER: There was technical data presented on both fields. I'm not sure as to where the line was drawn. I think Nora was in 1989 and the first Oakwood was 1991. In fact, I remember quite clearing at the hearing in September you raising the question of whether or not that line was sort of an arbitrary line.

MR. BRENT: Obviously my question wasn't answered.

THE WITNESS: I'm sorry. I can't answer that. I think generally speaking it was the county boundary and that

was where our acreage was. We were proving to ourselves that the 60 acre spacing that we intended to invest our ongoing drilling funds was appropriate at 60 acres.

MR. BRENT: I guess it's safe to say the line was not based on good technical data?

MR. KAISER: I don't know that I'd say that. It's just that as development moves toward -- as the two fields move toward each other and development and exploration pick up in the area where they overlap then I guess my basis would be that the line doesn't need to be a static thing. I mean, there's no reason for it to be a static thing as long as there's technical data to support that the spacing that we are seeking is reasonable.

MR. CHAIRMAN: When the Board heard the testimony on the Nora and then subsequently on the Oakwood I and II the lines were drawn at a full open hearing like this where technical data was presented. What they're now saying and what we've heard from other parties is as these fields are developed they're gaining additional information that wasn't available at that time. And that's what we're having to sort through. What on the one hand can appear like something that's something that's just wiggling to accommodate a lease interest and not be based on sound technical data -- that's

1 we have to make our decision on what's going on
2 here. Is it just accommodating lease lines or is it,
3 in fact, based on sound technical data that substant-
4 iates the 60 versus the 80 acre drilling. I think
5 that's the bottom line as far as looking at the big
6 picture of the distinction in the field rules.
7 THE WITNESS: To reiterate, the two major features that are
8 distinguishing the two fields -- what makes 80 acres
9 more appropriate to them is thicker coal and increased
10 gas content. All I can tell you is the closest we're
11 into this one right now we have 93 days worth of
12 desorption data on this well and the average gas
13 content is 355 which is again consistent with the Nora
14 side. I can't speak for OXY's values. I feel that
15 they're higher. I don't know what they are, for
16 instance, in here but I do know what they are here.
17 MR. LEWIS: And you haven't got any data from OXY on their
18 production?
19 THE WITNESS: No, sir.
20 MR. LEWIS: Whether it's decreased or not?
21 THE WITNESS: I can't speak to their production.
22 MR. CHAIRMAN: And when you say you do know from here,
23 pointing south of the -- how did you refer to that box?
24 I was trying to think how you referred to that area.
25 THE WITNESS: This area here?

MR. CHAIRMAN: Yes.

THE WITNESS: That's the area for the second modification. The first one was in this outline here.

MR. CHAIRMAN: Okay. It was for the second modification.

THE WITNESS: Uh-huh.

MR. CHAIRMAN: When you pointed south and said, "I do know from here" what do you know?

THE WITNESS: We know thickness are consistent with the prodimence of our wells in the Nora. We know the gas content is consistent. We also have a tie between those two controlling factors and the six months worth of computer reservoir modeling we've done in that feature. There is a very strong tie to the structural nature of these feature as compared to this one, which is the closest one we have under development that we've had sufficient time to model. Again, the development there was from 1991 to current and we see again no interference -- no effect of a new well on the existing wells, no change in the slope of their decline curves, no pressure interference. So that all we can say at this point is that 60 acres is not too small. Quite frankly, ten years from now as we desorb this gas which is the whole mechanism for this development we could come back and say 40 acres is more appropriate. But we'll have ten years more information at that time.

That's what we're making these field rule based on, is the technical data.

MR. CHAIRMAN: I think everybody understands that, but in the 60 acres you're going to drill more wells than you are under the 80 acres.

THE WITNESS: Exactly.

MR. CHAIRMAN: The smaller you get those units the more increased density you're going to have a well drilling activity?

THE WITNESS: Right.

MR. LEWIS: But you have no history on this one?

THE WITNESS: That is the field we have the history from 1991 on. It's taken us from 1991 to currently --

MR. CHAIRMAN: And that's over to --

MR. KAISER: That's the Frying Pan structure.

THE WITNESS: It's taken us those six years to develop more than 40 wells in here.

MR. GARBIS: How much longer will it take you if you have the 80 acre spacing to obtain the gas out of the ground as opposed to 60? I mean, what are we talking about the trade off in the volume of gas that you're going to take in th e80 versus the 60?

MR. LEWIS: He said he didn't have anything on that.

THE WITNESS: If you just look at rough numbers you're talking probably 25 percent longer. It's just an

1 economic decision. What is better for the Commonwealth
2 -- what is better for developers such as ourselves is
3 to drill the most wells to produce the most gas as
4 efficiently and as quickly as we can. The smaller
5 limit really becomes a burden on us as to saying how
6 much more do we want to invest earlier in order to
7 obtain the same reserves. So drilling it at an
8 increased density only develops the gas faster and
9 puts the benefit of those reserves in everybody's
10 pocket book.
11 MR. CHAIRMAN: Bob Wilson, do you have any observations of
12 this that you could share with the Board?
13 MR. WILSON: The only thing that I can think of and I think
14 the witness would agree with me on this is that there
15 will never be a finite line between these two producing
16 areas. There's not going to be any such thing as a
17 barrier that you cross where 60 acres might be appropr-
18 iate on one side and 80 acres appropriate on the other
19 side. It's a natural system and it's going to in-grade
20 somewhere and it's going to have to be based on some
21 sort of data. But there's never going to be a point
22 you can get to and say from this exact spot on you need
23 to go from 60 to 80 or visa versa.
24 MR. KAISER: Mr. Baker, was Consol notified of this hearing?
25 MR. BAKER: Yes, they were.

1 MR. KAISER: And to your knowledge did they file any
2 objection?
3 MR. BAKER: Not to my knowledge, no.
4 MR. KAISER: Thank you.
5 MR. CHAIRMAN: Do you have anything further?
6 MR. KAISER: No, other than to say that I think that's one
7 of the points certainly that I was trying to make, that
8 you can't just draw a line across the ground and say
9 this is appropriate on this side and that's appropriate
10 on that side. It's not a static process and it is a
11 process that should be -- nobody's certainly trying to
12 impact the Board's credibility in establishing these
13 field rules. But it's of a process that should and
14 essentially has to be driven by technical data and
15 development as it proceeds.
16 MR. CHAIRMAN: Any other questions, members of the Board?
17 MR. KING: Mr. Chairman, maybe it's a dumb question but it
18 seems to me like that if we approve downsizing to a 60
19 acre grid that you're going to pump more gas out
20 quicker. Is that basically correct?
21 MR. DAHLIN: That's exactly right.
22 MR. KING: Which economically if you flood the market with
23 any product it's going to get cheaper. Would that be
24 an economic question?
25 MR. DAHLIN: What the situation is is that we've got to find

a drainage radius that's appropriate for the investment. Because our coals are thinner and contain less gas in place we have got to have increased density in order to make a minimum economic threshold. The difference -- the main difference between the Oakwood Field and our field is the deposition of the coal which they have greater and the naturally occurring methane within those coals which they have higher. So they can make their economic threshold easier at a larger spacing, less dense drilling than we require. And that's what we're saying, is that now after six months that we find 60 acres is not interacting with each other and so, therefore, it's not too small. What we don't want to do is impact our adjoining well by the next well. So, no, it's more or less meeting a minimum economic limit, not an over saturation in any means.

MR. CHAIRMAN: Other questions, members of the Board?

MR. KING: I have another question, Mr. Chairman. Is Consol operating under the Oakwood where they are?

MS. RIGGS: (Nods in affirmative response.)

MR. KING: Then this is going to take a small section and change it to 60 over the 80 that's close by.

MR. KAISER: That's correct. What did we say, a little over 1,400 acres.

MR. CHAIRMAN: Other questions?

1 MR. GARBIS: I don't feel quite comfortable making a
2 decision on that right now. I don't know that we have
3 enough history behind it, enough technical information
4 that we can make an informed proper decision. In
5 response to what was said, if OXY's up there and
6 they're not that far away and they're at a 80 acre
7 spacing actually true, you have two wells that are
8 pretty close -- like I say, I'm a little reluctant to
9 make a change without a little more careful liberation.
10 I'd like to see more information presented to us before
11 -- in my opinion I'd like to see more information
12 presented to us before we -- look at this in greater
13 detail before making a decision.
14 MR. CHAIRMAN: Do you request we continue this to next
15 meeting for that purpose or --
16 MR. GARBIS: And additionally, if we can get some more
17 information. Maybe Mr. Fulmer's office has some.
18 MR. LEWIS: I don't think that would be too quick.
19 MR. GARBIS: The next meeting, if that's required that's
20 fine.
21 MR. HARRIS: Mr. Chairman, I'm also a little uncomfortable.
22 I'm not sure what kind of information -- I'm thinking
23 too what would be helpful and I'm not sure what would
24 be helpful unless we drilled test holes all around
25 there and --

1 MR. GARBIS: Well, the same information basically that was
2 presented initially when these boundaries were set
3 forth. I mean, what information was presented to us at
4 that time back in -- whenever it was? I'm sure we had
5 testimony from some geologists and engineers basically
6 coming in and saying that this is where the field
7 appears to be. I'm sure whatever was good at that time
8 would be sufficient for us this time.
9 MR. DAHLIN: If you could kind of help us figure out what
10 that might be. Primarily it's just data points which
11 are wells. Our desorption tests right on the line
12 there were stopped after 93 days because no significant
13 amount of gas was being evolved from the samples.
14 Other than if we included other data from OXY or got
15 OXY's opinion in adjoining acreage -- other than that
16 the only thing we can do is to give you another point
17 inside that area -- which currently what we're trying
18 to do is lay out our drilling program. I don't know if
19 a provisional unit or something like that would be
20 appropriate, but what we wouldn't know how to do is to
21 lay out the development in that area. In other words,
22 I can't give you another well or another -- until we
23 know how to lay it out and get into the acreage and
24 development. I'm just throwing that out there to get
25 some feed back.

1 MR. GARBIS: Well, you know what the production on all the
2 other wells in that southeast area -- you know what the
3 production is there.
4 MR. DAHLIN: Right.
5 MR. GARBIS: So what you're telling me is that as you're
6 progressing to the northeast basically the production
7 is equal to -- roughly equal to the same. Is that what
8 you're telling me?
9 MR. DAHLIN: What we've done is we've history matched
10 computer simulation picks to actual observed marketed
11 volumes of gas. We have matched individual wells. We
12 have matched the field in general. We have a high
13 degree of confidence, a high degree of correlation
14 between simulated data points and observed data points.
15 We also have a correlation between thicknesses in gas
16 content on the new data as compared to the modelling.
17 So other than finding the thickness and gas content
18 inside this area and saying that there is a correlation
19 between those new data points -- that's precisely why
20 we're at this point right now. We've got the data
21 currently to match six years worth of production that
22 says 60 acres is at least small enough. And other than
23 having one more month's production to add on to the six
24 years that's all we'll have or we'd have to have a well
25 inside the area to show that the thickness is similar

1 to the adjoining ones. And if -- we either have to
2 drill a new well or we won't have any more data that's
3 significant is my point.
4 MR. GARBIS: What about OXY -- certainly that's available --
5 that we could compare. I can think of a number of ways
6 that you could look at production, graph them out,
7 different thicknesses, different production over time.
8 You can do a lot of different things. And I'm sure a
9 lot of that basis information that you dataed into your
10 simulation model -- I think you probably have more
11 information than you know. You have information to use
12 for it.
13 MR. BRENT: I don't see how that additional information
14 would really help you because what we've heard here in
15 testimony is there is a grey area there where structure
16 is changing. I don't know what having information up
17 there is going to do to make you feel more comfortable.
18 MR. GARBIS: I'm reluctant to change it without more --
19 MR. BRENT: I agree with Mr. Harris. I'm not sure I know
20 what additional information you can get that's going to
21 make you feel more comfortable.
22 MR. KAISER: I think what Mr. Dahlin is saying is other than
23 another month's production on the four wells that we've
24 drilled since September and/or coming back and having
25 the Board give us a provisional 60 acre unit within

that modified area and drill that well and get the information there isn't going to be any more information.

MR. GARBIS: What about the OXY wells?

MR. DAHLIN: The only thing I can tell you that gives us confidence is we have not studied their data but we have basically shared results and we feel comfortable. They did not object to this. They feel comfortable. They're more than welcome to speak. We have general information from their production. We have not studied or modeled their production. What we think is the boundary -- again, it's very structurally controlled. Where the boundary is generally going to be is where you find that you're in a position low enough structurally to define the edge of what you would loosely call the pool. The problem we've got here is by regulation you establish field rules based on a distinct pool. In reality we don't have a distinct pool. What we're going to do is we're going to find a structural position in here that will control the production profile to make it look more like one or more like the other. Where we would choose to stop drilling would be when we find ourselves in a structural position low enough to where we don't want to invest our money any longer. What we don't want to do is find ourselves out

there on that position at a large acreage unit and find that we can't get the money back in a timely enough fashion to have paid for our investment. So again what we've found is 60 acres isn't too small. So that would encourage development at 60 acres. What's at risk is that drilling at 80 acres and finding that was too big. The data point that I think is most significant is where is the boundary between there. I don't know how to find it without drilling. Again, we have not studied or modeled their's but I believe everybody is comfortable between the two operators. I can't -- beyond that --

MR. GARBIS: Unless we hear -- I don't know what their position is going to be.

MR. CHAIRMAN: Let me just ask this question for the Board. Is there some consideration to approve it on a provisional basis with a report back on each well and ask OXY at the same time to come and help us define at a future hearing. Set it at two months, three months, whenever you want to. Try to better define that area and set a better basis technically for the drainage. And respecting the fact that you have you drill in there to make some of these decisions. I think we'd have an ability to approve this field modification on a provisional basis with a report back on a time certain,

however you wanted it, as each well is drilled with time to get the data or on an annual basis or however you wanted to do that.

MR. BRENT: I think that's a good idea. We're all learning here.

MR. KING: Do you plan to drill some wells pretty quick if we do approve this?

MR. DAHLIN: Absolutely. We drilled these four wells. We just laid eight miles of pipeline. We have a substantial investment in there. We're very eager to develop the property.

MR. KING: So you could give us a report every 60 days on what you're --

MR. BAKER: I'd like to kind of say something here along those lines. What we have proposed for the modification area will probably not happen for another 60 to 90 days minimum because we have some outstanding leases that negotiations have been completed on but however we have not received the leases back yet. Once that take places then, of course, we have to go through the permitting process and things of that nature. So it may be as much as four to six months before the wells are drilled and information is probably available.

MR. DAHLIN: As soon as the well is drilled we'd have

1 confirmation whether the thicknesses is what we expect
2 -- we'd have that as soon as the well was drilled and
3 (Inaudible.) If we pull sidewall cores and desorb that
4 data it takes generally three months to evolve the gas
5 from the coal seam. So we could report back in four
6 months after the drilling of the well to tell you
7 whether the gas contents are in line with what we
8 predict.
9 MR. KING: So to get those leases you're saying probably
10 about six weeks.
11 MR. BAKER: To get the leases back and get everything -- the
12 I's dotted and the T's crossed and the permits and
13 everything it could take as long as 30 days. I
14 wouldn't think any longer than that. But once that
15 takes place then you have to do the permitting and --
16 MR. KAISER: I want to make it clear that before we probably
17 have any hard data to present back to the Board it
18 could be six months.
19 MR. BRENT: But as long as we're taking it well by well.
20 MR. KING: I think we need to set a time on it, Mr.
21 Chairman.
22 MR. LEWIS: I don't think you're going to be able to tell
23 much difference in 60 or 90 days. It may take a year.
24 It's according how many wells you drill and how many
25 OXY drills. That's what it's determined by.

1 MR. KAISER: It will be an ongoing process.

2 MR. LEWIS: If you drill one they're going to drill one to

3 offset your's if they can get close enough to it to do

4 it.

5 MR. KING: Then you can report back after each drill.

6 MR. GARBIS: I think also I'd like to see some of the

7 information and data on the existing wells, the

8 production on those -- you probably have about two

9 dozen wells there -- and it would be interesting --

10 there's a number of ways you could do that. You could

11 either graph it. I mean, you have plenty smart people

12 there on your staff to figure that out.

13 MR. DAHLIN: The production data could be presented any way

14 that the Board would like to see it. This is a history

15 match of the water production and the gas production in

16 all those wells to the southwest. We could graph it in

17 any way you'd like to see it. We could provide you

18 with tabulation in any way you'd like to see it. We'd

19 be happy to provide it.

20 MR. CHAIRMAN: Is that something you have copies of?

21 MR. DAHLIN: No. This is on the Frying Pan field. It's

22 just a history match of the production versus predict-

23 ion. It's just something I had with me that was a tie

24 between the predicted model and the actual observed

25 model. It just shows a high degree of confidence.

1 MR. GARBIS: You were talking about the thickness. What
2 thickness are you talking about? Are you talking about
3 the coal seam thickness?
4 MR. DAHLIN: Thickness of the coal seams. The accumulative
5 thickness of the seams we stimulate.
6 MR. GARBIS: I think that would probably be more instruct-
7 ive, if you do several slices, cross sections and --
8 that's what your model does anyhow.
9 MR. DAHLIN: Yeah. That's what we do. Right. And what we
10 do is we would -- after we received a log we'd take
11 that new log, put it in on that cross section and see
12 if there's a correlation, the diminishment of the coal
13 seams or whether they got thicker.
14 MR. GARBIS: Like I said, there's plenty of data out there.
15 You know how to -- you don't need me to tell you how to
16 do that. You know what needs to be done.
17 MR. DAHLIN: Yeah. We'd be happy to report back the results
18 in a provisional unit.
19 MR. KAISER: Mr. Chairman, I'd ask that should the Board
20 decide to grant this modification and establish a
21 provisional unit that there be language in the order
22 allowing us to permit these wells under the Nora Field
23 Rules -- the Nora coalbed field.
24 MR. KING: That's what you're requesting?
25 MR. DAHLIN: Yes. We'd like the well to be permitted to

show that it's part of the Nora Coalbed Field.

MR. CHAIRMAN: Do I have a motion?

MR. GARBIS: You were talking about a compromise --

MR. CHAIRMAN: I was just asking the Board a question, does the Board feel more comfortable that better data is going to be established by granting this field modification on a provisional basis with a report back at a frequency or well by well or on a time frequency and let them drill on the Nora -- provisional for the Nora Coalbed until we get patterns established that, in fact, this is technically supported to extend this field as they're requesting at 60 acres versus -- and then at the same time try to bring in data on the 80 acre side to see what that's telling and what are the differences and see if really it is the geologic structural features that's driving this or if it's something else. If it's lease boundaries or what it is.

MR. LEWIS: It's going to take at least a year to determine this. At least that or maybe longer.

MR. CHAIRMAN: Very likely it will.

MR. BRENT: But if we do it on a well by well basis, which is what I would move, then time is really not of essence here in establishing this line. As long as we don't let them get ahead of us and if we just do it on

1 a well by well basis.

2 MR. LEWIS: Well, if they go to the 60 acre grid OXY's going

3 to come in and they're going to want to go on a 60 acre

4 grid too probably.

5 MR. DAHLIN: But the comment I'd make on that is that's not

6 bad for anybody if it's not an economic waste. All

7 that does is develop the acreage and produce the

8 reserves which is what everybody is about, the revenue,

9 the tax generations, all the things discussed. That's

10 a benefit.

11 MR. LEWIS: I understand that, but who's it benefiting most?

12 MR. DAHLIN: Hopefully we're all benefiting. I mean, we

13 wouldn't drill for it if we didn't make a profit and

14 the royalty owners --

15 MR. KAISER: It's a level playing field as far as that

16 benefit goes. It's benefit in accordance with your

17 interest.

18 MR. KING: The lease owners are going to make more.

19 MR. DAHLIN: Right. And --

20 MR. KAISER: I don't think any royalty interest owner would

21 object.

22 MR. DAHLIN: Most of the people we drill real big wells on

23 are the happiest ones.

24 MR. CHAIRMAN: Did you make a motion?

25 MR. BRENT: I did make a motion that we grant the

provisional modification with a report back well by well before we grant any further like this.

MS. RIGGS: With respect to permitting, would the permitting authorization that they permit under Nora follow the well by well as well?

MR. BRENT: Well by well.

MR. KING: Second.

MR. CHAIRMAN: Any further discussion?

MR. KING: Mr. Chairman, the motion maker, we're going to look at it every well and we can change this order after we see that?

MR. CHAIRMAN: Yes. The provision nature of it would mean that,

MR. GARBIS: And that we also will have additional information provided to us as we mentioned. I'd like to see that. I think that should be provided to us.

MR. CHAIRMAN: Right. Further discussion?

MR. LEWIS: Yeah. I'd like to say one thing. I don't think that you can come in here and have a 60 acre grid in the Nora tract and a 80 acre grid and then turn right around and switch it back and forth to suit one person or one company or one group. I think you ought to make the rules and you stick to those rules. Right now if you had the data and the information and the history of these wells and you could show it to us it

1 would be a different question. But you don't have it.
2 MR. DAHLIN: That's exactly the nature of our business. If
3 we had all the data we would be able to map all the
4 features first and not drill the four wells. But
5 that's the dilemma we're in and what's just complicated
6 it is that we've established certain rules and we've
7 changed them and now we've gathered more data and we're
8 asking you to change to suit the data. If we drilled
9 the first well and there's substantially thicker coals
10 than what we've got modeled then it would behoove us to
11 develop on larger units, too and we'll be happy to do
12 it. That will be the only 60 acre unit out there.
13 MR. BRENT: I think, Mr. Chairman, we are all learning here
14 and I think it's the Board's responsibility to be
15 responsive to new technical information and be willing
16 to make modifications based on good sound information.
17 MR. LEWIS: Yeah, but we don't have that.
18 MR. BRENT: That's what we're going to get when they drill
19 this first well.
20 MR. LEWIS: But one well's not going to tell you that. Two
21 wells won't tell you that.
22 MR. KING: But we can modify it after each well.
23 MR. KAISER: And you do have as much as we have.
24 MR. CHAIRMAN: Let me -- it may shed some light and may ask
25 some more questions but that's what we're all about.

1 Respecting that we have a motion and a second, but this
2 is under discussion. In the law -- in the Code of
3 Virginia, 45.1-361.20. E it says that if at the time of
4 the hearing there is not sufficient evidence for the
5 Board to determine field boundaries, drilling unit size
6 or shape or allowable production the Board may enter a
7 temporary order establishing provisional drilling
8 units, field boundaries and allowable production for
9 the orderly development of the pool pending receipt of
10 the information necessary to determine the ultimate
11 pool boundary, spacing the wells for the pool and
12 allowable production upon additional findings of facts
13 the boundaries of a pool drilling units for the pool
14 and allowable production may be modified by the Board.
15 I believe that's where we are. Clearly in the Code
16 we're granted that authority to do this and whole
17 intent to get the question you and I think we all have
18 is where should that be and how can we have this to
19 where it doesn't appear to just be a wiggle around
20 lease boundary issues but stay consistent with what the
21 structural features are driving is to collect that data
22 and to have that data reported. And what the Board is
23 going to have to constantly look to, both from a
24 company's and from a gas and oil inspector's office, is
25 staying with the technical -- being technically driven

and get the reports back that are most meaningful, such as the seam thicknesses, what's being produced out of those various seams and how that's dictating whether or not we should grant an 80 acre spacing or a 60 acre spacing or some other spacing that could come up. Any further discussion?

MR. LEWIS: Yeah. I'd like to know how OXY feels about this. We don't have nobody here to -- were they notified of this?

MR. KAISER: Yes, they were.

MR. CHAIRMAN: All in favor signify by saying yes. (SOME AFFIRM.) Opposed say no. (Lewis votes no.) Thank you.

ITEM II

MR. CHAIRMAN: The next item on the agenda we have scheduled is that the staff would present to the Board a status of Board orders and issues of compliance to Board orders in particular regarding the order issued by the Board on VGOB-91/05/21-0126 for coalbed methane unit Z-12 in the South Grundy District, Buchanan County. Tom Fulmer had to be out today and he has prepared and I'm distributing now a copy of the status report. I'd like to continue this at your pleasure to next month. That will give us a chance to read this and Tom will come back and present to the Board further evidence on this issue, if that's acceptable. All right. With that we'll take a short break.

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

1 ITEM III

2

3 MR. CHAIRMAN: The next item on the agenda is the Gas and
4 Oil Board will consider a petition from Hugh MacRae
5 Land Trust and Garden Realty Corporation to amend
6 supplemental order -- unit number NELW-10. This is
7 docket number VGOB-97/04/15-0579. We'd ask the parties
8 that wish to address the Board in this matter to come
9 forward at this time.
10 MS. HARRISON: Mr. Chairman, I'm Jill Harrison. I practice
11 here in Abingdon with Penn, Stuart and Eskridge. Today
12 I represent Hugh MacRae Land Trust and Garden Realty
13 Corporation. This is a matter that was continued from
14 the last hearing. We presented all our evidence at
15 that time and if my memory serves me correctly it was
16 simply a matter of checking into money that had been
17 disbursed and a supplemental order was to be entered
18 and money paid back prior to the Board granting our
19 request for relief.
20 MR. CHAIRMAN: That's correct. Are there any others here
21 that wish to address the Board in this matter? The
22 record will show there are none. You may proceed.
23 MS. HARRISON: I have no further evidence, Mr. Chairman. It
24 was all presented at the last meeting.
25 MR. CHAIRMAN: Did you have witnesses or anything?

1 MS HARRISON: No. We really did everything at last
2 hearing.
3 MR. CHAIRMAN: Do the members of the Board have further
4 questions?
5 MR. BRENT: I do, Mr. Chairman. I'd like to know where we
6 stand with regard to the funds that were -- I gather
7 being escrowed internally by the operator that we were
8 being requested to have disbursed. Do we have any more
9 information on that?
10 MS. HARRISON: Mr. Chairman, if you don't have any inform-
11 ation I spoke to Ms. Davis about this simply because I
12 didn't want a month to go by without trying to check
13 into it. She indicated to me that a supplemental order
14 had been prepared and was going to be presented I
15 believe to you that would indicate the money was to be
16 paid into escrow and once that order was entered that
17 the operator was prepared to write a check to put it
18 back with Premiere Bank. It was simply a matter of the
19 order being entered.
20 MR. CHAIRMAN: An order had to be entered to create a
21 vehicle to get it back in. And that has taken place.
22 MS. HARRISON: And the operator is quite willing and ready
23 and wants to give the money back. So there should be
24 no problem.
25 MS. RIGGS: Well, the supplemental order has been processed

and is being recorded. So now all you need to do is pending deposit by the operator authorize the release in accordance with the application.

MR. CHAIRMAN: Right.

MR. KING: Mr. Chairman, I move we allow this.

MR. LEWIS: I second it.

MR. CHAIRMAN: A motion and second. Any further discussion? All in favor signify by saying yes. (ALL AFFIRM.) Opposed say no. (NONE.) Thank you.

MS. HARRISON: Thank you very much.

ITEM IV

MR. CHAIRMAN: The next item on the agenda is the Board will consider a petition from Hugh MacRae Land Trust and Garden Realty to amend a supplement order for unit SLW-5. This is docket number VGOB-97/05/2-0580. We'd ask the parties that wish to address the Board in this matter to come forward at this time.

MS. HARRISON: Mr. Chairman, I'm Jill Harrison and I practice with Penn, Stuart, Eskridge here in Abingdon. I have with me Mr. Jackie Meade who is a member of the Board of Directors and a shareholder with Garden Realty Corporation. We are here on the petition of Hugh MacRae and Garden Realty for the withdrawal of escrow funds pursuant to a voluntary agreement entered into between the parties. As I did last time, I prepared a time line.

MR. CHAIRMAN: Okay.

MS. HARRISON: And this gives you the background information on the South Longwall 5 unit. The first matter that occurred was the filing of the pooling application on February 26th, 1992. The hearing itself on the application was held on March 17th, 1992. At that tie the Board granted the pooling request. The order itself was entered on April 29th, 1992. In between

1 that time and the time we come to now Buchanan Produc-
2 tion Company escrowed the funds pursuant to this
3 pooling order. On November 18th, 1996 Hugh MacRae and
4 Garden Realty entered into a voluntary agreement. That
5 sets forth the matter in which the escrowed royalties
6 and future royalties are to be divided between them.
7 On April 18th Garden Realty and Hugh MacRae filed this
8 application with the Board which brings us to the last
9 item which is where we are today, on the hearing.
10 MR. CHAIRMAN: Thank you.
11 MS. HARRISON: I stand corrected. It's a PGP unit as
12 opposed to a Buchanan Production Company unit. If you
13 would swear the witness, please.
14 COURT REPORTER: (Swears witness.)
15
16 JACKIE MEADE
17 a witness who, after having been duly sworn, was examined
18 and testified as follows:
19
20 DIRECT EXAMINATION
21
22 BY MS. HARRISON:
23 Q. If you would state your name, please?
24 A. Jackie Meade.
25 Q. Mr. Meade, are you a member of the Board of Directors

1 of Garden Realty Corporation?

2 A. Yes, I am.

3 Q. This is the same Garden Realty Corporation that is

4 identified as a conflicting claimant with Hugh MacRae

5 Land Trust in the South Longwall 5 unit?

6 A. Yes.

7 Q. Does Garden Realty claim the ownership of the oil and

8 gas underlying the 600 acre tract, portions of which

9 are included in the South Longwall 5 unit?

10 A. Yes.

11 Q. To the best of your knowledge does Hugh MacRae Land

12 Trust claim the ownership of the coal underlying this

13 same tract, portions of which are included in the unit?

14 A. Yes.

15 Q. Has Garden Realty and Hugh MacRae entered into an

16 agreement that resolves this conflicting claim between

17 the oil and gas owner and the coal owner on this tract?

18 A. Yes, we have.

19 Q. I'll ask you if you will look at the agreement that is

20 shown in Exhibit #4 and Exhibit #5. Is this the

21 agreement that Garden Realty entered into with Hugh

22 MacRae Land Trust?

23 A. (Pause.) Yes, it is.

24 Q. Is this agreement still in effect today?

25 A. Yes.

1 Q. Does it also encompass the South Longwall 5 unit?
2 A. Yes, it does.
3 Q. Based upon this agreement are you asking the Board to
4 amend its orders on this unit to reflect that Hugh
5 MacRae and Garden Realty are no longer conflicting
6 claimants?
7 A. Yes.
8 Q. Are you also asking the Board to enter an order
9 directing the escrow agent and the operator to account
10 for the funds that have been deposited on account of
11 the South Longwall 5 and particularly your interest?
12 A. Yes.
13 MS. HARRISON: Simultaneously with the filing of this
14 application we also put a notice of publication in the
15 paper, a copy of which is shown in your notebook. I
16 have also included a copy of the registered return
17 receipts that we sent out giving notice to everyone
18 that is an owner in the unit. I would move at this
19 time, Mr. Chairman, for the entry of Exhibits #1
20 through #7 which are shown in your exhibit book.
21 MR. CHAIRMAN: Without objection they're entered.
22 MS. HARRISON: Thank you. Mr. Chairman, that completes our
23 evidence and I would ask that the Board rule on our
24 motion for the withdrawal of the escrow funds. In the
25 South Longwall 5 the interest -- the aggregate interest

in the unit that we have as shown in our petition as 5.662 percent of the whole unit.

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

(Witness stands aside.)

MR. KING: Betty King, is she the lady who came from Carolina?

MS. HARRISON: Yes. Unfortunately Mrs. King's husband had a fall and she was not able to come. Fortunately for me Mr. Meade was able to travel down today to act as my witness.

MR. CHAIRMAN: Do I have a motion?

MR. BRENT: I move that we grant the application.

MR. LEWIS: I second it.

MR. CHAIRMAN: Further discussion? All in favor signify by saying yes. (ALL AFFIRM.) Opposed say no. (NONE.) It's a unanimous approval. Thank you.

MS. HARRISON: Thank you very much. With the Board's permission, the next two units will have basically the same questions and answers for both. May I combine both of them?

MR. CHAIRMAN: Yes. If there's anything that should come up in the way of a question help us keep that carved out.

MS. HARRISON: Yes. I'd be glad to.

ITEMS V and VI

MR. CHAIRMAN: The next two items that we're going to consider and we've asked for these to be combined is a petition from Hugh MacRae Land Trust and Garden Realty to amend a supplemental order for unit SLW-6 and NELW-9. These are docket numbers VGOB-97/05/20-0581 and VGOB-97/05/20-0582. We'd ask the parties that wish to address the Board in these matters to come forward at this time.

MS. HARRISON: Mr. Chairman, I'm Jill Harrison and I practice with Penn, Stuart, Eskridge here in Abingdon. I represent Hugh MacRae and Garden Realty Corporation on their petitions today for the withdrawal of funds. With me I have Mr. Jackie Meade who is a member of the Board of Directors and a shareholder with Garden Realty Corporation.

MR. CHAIRMAN: He's been previously sworn. You may proceed.

MS. HARRISON: Our chronology on the South Longwall 6 and I believe you have a small chart also, if you would like to follow along, this pooling application was originally filed on January 21st, 1992. The hearing on the pooling request was held on February 18th, 1992. The request was granted at that time and the pooling order was subsequently entered on April 29th, 1992. I was

1 going to check with Mr. Morgan to make sure I was
2 right on this one. After that time the operator
3 escrowed funds in accordance with the entry of the
4 order. Hugh MacRae and Garden Realty entered into
5 their agreement on November 18th, a copy of which is in
6 your exhibit book. Then Hugh MacRae and Garden Realty
7 filed this application on April 18th and that leads us
8 here today. Something I neglected to point out
9 earlier, a copy of the application and the pooling
10 orders are identified as Exhibits #1 and #2 in your
11 books. On the Northeast Longwall 9 the original
12 pooling application was filed on November 18th, 1991.
13 The hearing was held on January 21st, 1992. At that
14 time the pooling request was granted and the order was
15 officially entered on April 29th, 1992. The operator
16 then escrowed funds and we come to the November 18th
17 date where the two entities entered into the agreement.
18 We filed the application for the Northeast Longwall 9
19 on April 18th and the hearing, of course, is today.
20 MR. CHAIRMAN: And that's PGP again?
21 MS. HARRISON: PGP.
22
23
24
25

1 JACKIE MEADE

2 a witness who, after having been duly sworn, was examined
3 and testified as follows:
4
5 DIRECT EXAMINATION
6
7 BY MS. HARRISON:
8 Q. Would you state your name, please?
9 A. Jackie Meade.
10 Q. Mr. Meade, you are a member of the Board of Directors
11 of Garden Realty Corporation?
12 A. Yes, I am.
13 Q. This is the same Garden Realty Corporation that is
14 identified in the applications for the South Longwall 6
15 and the Northeast Longwall 9 as a conflicting claimant
16 with Hugh MacRae Land Trust?
17 A. Yes.
18 Q. Does Garden Realty claim the ownership of the oil and
19 gas on the 600 acre tract, portions of which are in the
20 South Longwall 6 and the Northeast Longwall 9?
21 A. Yes.
22 Q. To the best of your knowledge does Hugh MacRae Land
23 Trust claim the ownership of the coal underlying this
24 same tract, portions of which are in the South Longwall
25 6 and the Northeast Longwall 9?

1 A. Yes.

2 Q. At this time have Garden Realty and Hugh MacRae entered

3 into a voluntary agreement in which they have resolved

4 their conflicting claims to the ownership of the

5 coalbed methane?

6 A. Yes.

7 Q. I'll now ask you to look at Exhibits #4 and #5. If you

8 will identify this agreement is the one that Garden

9 Realty and Hugh MacRae entered into?

10 A. (Pause.) Yes, it is.

11 Q. And this agreement is still in effect today?

12 A. Yes.

13 Q. Does this agreement cover the property that is included

14 within the units South Longwall 6 and Northeast

15 Longwall 9?

16 A. Yes.

17 Q. Based upon this agreement are you asking the Board to

18 amend its orders to reflect that Hugh MacRae and Garden

19 Realty have entered into a voluntary agreement and are

20 no longer conflicting claimants in this unit?

21 A. Yes.

22 Q. Are you also asking the Board to enter an order

23 directing the escrow agent and the operator to account

24 for the funds that have been deposited to the account

25 of the Northeast Longwall 9 and the South Longwall 6?

1 A. Yes.

2 MS. HARRISON: Simultaneously with the filing of these two

3 applications we also published notice of this matter in

4 the paper and copies of the proofs of publication are

5 in your books along with copies of our certified

6 mailing receipts that have come back to us. I would

7 ask at this time, Mr. Chairman, that Exhibits #1

8 through #7 for both the South Longwall 6 and the

9 Northeast Longwall 9 be accepted by the Board.

10 MR. CHAIRMAN: Without objection they're entered.

11 MS. HARRISON: Mr. Chairman, I would ask for the Board rule

12 at this time to consider our request for the relief

13 asked for in the petition which is the withdrawal of

14 the escrow funds attributable to the South Longwall 6

15 and the Northeast Longwall 9 units.

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

17 (Witness stands aside.)

18 MR. CHAIRMAN: Do you have a motion?

19 MR. LEWIS: I make a motion that we grant the applications.

20 MR. CHAIRMAN: A motion to approve both applications.

21 MR. KING: Second.

22 MR. CHAIRMAN: Further discussion? All in favor signify by

23 saying yes. (ALL AFFIRM.) Opposed say no. (NONE.)

24 You have an approval. Thank you.

25 MS. HARRISON: Thank you very much.

ITEM VII

MR. CHAIRMAN: The next item on the agenda is a petition from Cabot Oil and Gas for the establishment of a provisional drilling unit and pooling for a conventional gas well identified as COGC-37 located on the Amonate Quadrangle. This is docket number VGOB-97/05/20-0583. Are there any others that wish to address the Board in this matter at this time? The record will show there are none. You may proceed.

MS. HARRISON: Mr. Chairman, I'm Jill Harrison with Penn, Stuart and Eskridge here in Abingdon. Today I represent Cabot on the pooling application that we are asking the Board to consider. I have three witnesses. First is Mr. Jeffery L. Keim and then Mr. Michael Pryor and Mr. Dave McClusky. I'd like for the witnesses to be sworn in at this time.

COURT REPORTER: (Swears witnesses.)

JEFFERY L. KEIM

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

1 DIRECT EXAMINATION

2

3 BY MS. HARRISON:

4 Q. Would you state your name and address, please?

5 A. My name is Jeffery L. Keim. I live at 5909 Steel Road,

6 Murrayville, Pennsylvania, 15668.

7 Q. If you would, Mr. Keim, would you please identify for

8 me what is shown as Exhibit #1 in the exhibit books

9 which have been provided to the Board?

10 A. Exhibit #1 is my resume.

11 Q. And you are presently employed with Cabot Oil and Gas

12 Corporation?

13 A. Yes.

14 Q. Does the resume reflect your educational background and

15 your work experience in this industry?

16 A. Yes, it does.

17 MS. HARRISON: Mr. Chairman, I would submit Mr. Keim as an

18 expert witness in this area.

19 MR. CHAIRMAN: You may proceed.

20 Q. (Ms. Harrison continues.) Would you please explain

21 your responsibilities at Cabot and the manner in which

22 you carry out these duties?

23 A. I'm a senior landman responsible for Cabot's Pineville

24 and Danville Districts which is southern West Virginia

25 and this southwestern part of Virginia. I'm charged

with acquiring all oil and gas leases, forming units, rights of ways, settling damages, all arrangements necessary to drilling wells, making arrangements with other companies, farm-ins, farm-outs, joint ventures.

Q. Pursuant to 45.1-361.19 has Cabot given notice to each person or entity that's been identified on Exhibit #C of the unit and pooling application as a potential owner of the gas, oil, coal or minerals underlying the unit?

A. Yes, we have.

Q. Is the exhibit that is marked for identification as Exhibit #2 the notice of hearing that was mailed along with a copy of the application and exhibits to the parties listed on Exhibit #C of the application?

A. Yes, it is.

MS. HARRISON: Mr. Chairman, I would like to move at this time for the introduction of Exhibit #1 which is Mr. Keim's resume and Exhibit #2 which is a copy of the notice of hearing.

MR. CHAIRMAN: They're entered.

Q. (Ms. Harrison continues.) How was the sending of this notice accomplished?

A. This notice was sent by certified mail, return receipt requested.

Q. And you presently have physical custody of the return

1 receipts?
2 A. Yes, I do. And we are submitting copies of the return
3 receipts as Exhibit #3.
4 MS. HARRISON: Mr. Chairman, I would move for the introduc-
5 tion of Exhibit #3 which are the return receipts at
6 this time.
7 MR. CHAIRMAN: It will be entered.
8 Q. (Ms. Harrison continues.) Were there any individuals
9 who were identified as potential owners whose names and
10 addresses were unknown?
11 A. Yes.
12 Q. Did Cabot publish a notice of hearing in the Bluefield
13 Daily Telegraph on April 29th, 1997?
14 A. Yes, we did.
15 Q. Was a copy of that proof of publication previously
16 submitted to the Board?
17 A. Yes, it was.
18 Q. Is the information which is listed on Exhibit #F to the
19 application still correct?
20 A. Yes.
21 Q. Is the information shown on the original Exhibits #C
22 and #D still correct?
23 A. No, it is not.
24 Q. Why is it not correct?
25 A. Because since the filing of the application we've

1 acquired additional leases and were able to determine
2 additional owners through heirship.
3 Q. If you would, identify Exhibit #4 in the exhibit book
4 which has been provided to the Board?
5 A. Exhibit #4 is a revised Exhibit #C to our application.
6 Q. If you would, identify Exhibit #5?
7 A. Exhibit #5 is our revised Exhibit #D to the applic-
8 ation.
9 MS. HARRISON: Mr. Chairman, I would move for the introduc-
10 tion of Exhibits #4 and #5.
11 MR. CHAIRMAN: They're accepted.
12 Q. (Ms. Harrison continues.) Do these revised exhibits
13 accurately reflect the current ownership and leasehold
14 status of the COGC-37 unit?
15 A. Yes, they do.
16 Q. Is Consolidation Coal Company the owner of the location
17 of the proposed COGC-37 well?
18 A. They're the owner of the coal, yes.
19 Q. Did you receive consent from Consol for this well
20 location?
21 A. Yes, we did.
22 Q. Has a drilling permit previously been refused to Cabot
23 on any of the tracts that comprise this COGC-37 unit?
24 A. No.
25 Q. Are you in the present process of filing a work permit

for the COGC-37 well?

A. Yes. We are in the process of noticing the various owners and we will file the application as soon as we receive the return receipts.

Q. Does the plat that's attached to the unit and pooling application indicate the area within which the well will be drilled on the proposed COGC-37 unit?

A. Yes, it does.

Q. Approximately how many acres has Cabot leased at this time in southwestern Virginia?

A. We have leased in excess of 50,000 acres.

Q. What would be the average fair market value terms for an oil and gas lease written in southwest Virginia?

A. In general the bonuses would be one dollar -- delay rental is one dollar with a royalty of one-eighth and two dollars per acre shut-in royalties.

Q. Generally what is the primary term that you have been obtaining?

A. Generally the primary term is three to five years. However, we have offered one year primary terms as an inducement to small owners in these potential units to avoid the expense of coming to these hearings.

Q. Does the proposed drilling unit embrace two or more separately owned tracts or are there separately owned interests within the unit that have not agreed to lease

1 or pool their interests?

2 A. Yes, there are.

3 Q. Have you obtained oil and gas leases on additional

4 acreage not owned by Cabot within this unit?

5 A. Yes, we have.

6 Q. What percentage of the oil and gas within the unit is

7 presently owned and leased by Cabot?

8 A. Cabot owns or controls 99.79 percent of the oil and gas

9 in this unit.

10 Q. What percentage would that leave as not owned or

11 unleased by Cabot?

12 A. .0021 percent.

13 Q. Are you at this time requesting that the moneys

14 attributable to the unlocated or unleased owners be

15 placed into the escrow account that has been estab-

16 lished by the Board pursuant to 45.1-361.21 and the

17 regulations?

18 A. Yes.

19 Q. Are you requesting that the Board establish the

20 proposed COGC-37 unit as a provisional unit and pool

21 the interest of the parties leased on Exhibit #C for

22 this unit?

23 A. Yes, we are.

24 MS. HARRISON: Mr. Chairman, those are all the questions

25 that I have for this witness.

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

2 (Witness stands aside.)

3

4 MICHAEL S. PRYOR, SR.

5 a witness who, after having been previously sworn, was

6 examined and testified as follows:

7

8 DIRECT EXAMINATION

9

10 BY MS. HARRISON:

11 Q. Would you state your name, please?

12 A. Michael E. Pryor, Sr.

13 Q. What is your address, Mr. Pryor?

14 A. Post Office Box 2134 here in Abingdon.

15 Q. If you would, please identify for me Exhibit #6 that is

16 in the book that's been provided to the Board members?

17 A. It is my resume.

18 Q. Does this accurately reflect your educational back-

19 ground and your work experience in this industry?

20 A. Yes, it does.

21 Q. In your experience in obtaining leases in southwestern

22 Virginia are you familiar with the fair market value

23 for oil and gas leases?

24 A. Yes, I am.

25 Q. Approximately how many acres have you personally leased

1 in southwestern Virginia?
2 A. Thousands of acres.
3 Q. To your knowledge what are the fair market value terms
4 for the oil and gas leases in southwestern Virginia?
5 A. A dollar per acre for a bonus consideration, a dollar
6 rental, two dollars for shut-in royalty and one-eighth
7 royalty.
8 Q. What is the general primary term that you've been
9 obtaining the leases?
10 A. One to five years.
11 Q. Did you work on the identification of owners with the
12 COGC-37 unit and obtaining leases from them?
13 A. Yes, I did.
14 Q. How did you identify the owners?
15 A. By reviewing the Tazewell County Courthouse records,
16 using title opinions and talking to landowners and
17 heirs.
18 Q. How did you go about personally contacting these
19 owners?
20 A. By telephone when they lived far off. If I could talk
21 to them personally I would talk to them personally or
22 send them something in the mail -- by regular U.S.
23 Mail.
24 Q. With regard to the two unleased owners that are
25 identified as F. Campbell Peery and Grace G. Barnes on

1 revised Exhibit #D have you contacted these landowners
2 to obtain a lease?
3 A. Yes, I have.
4 Q. And I take it they have not leased?
5 A. They have not leased.
6 Q. With regard to the unlocated company that's shown on
7 Exhibit #F to the application, which is identified as
8 Westbury Coal Mining Partnership, did you try to locate
9 an address for this company in order to provide it
10 notice of this application?
11 A. Yes, I did.
12 Q. How did you go about doing that?
13 A. I talked to local landowners to try to find them. I
14 looked at the records in Tazewell. There was no record
15 of this partnership at the State Corporation Commiss-
16 ion. I exhausted every avenue I knew to locate them.
17 Q. So in your opinion you have exercised due diligence in
18 attempting to locate this company?
19 A. Yes, I have.
20 MS. HARRISON: I have no further questions for Mr. Pryor.
21 MR. CHAIRMAN: Questions, members of the Board? Mr. Pryor,
22 in checking with the records in the area to determine
23 fair market value and everything, you know, to arrive
24 at your conclusion of the current fair market value
25 that you're paying what all have you looked at? What

1 led to that consideration?

2 THE WITNESS: In all the leasing that I've done in the area

3 that's just in general what we've been paying.

4 MR. CHAIRMAN: It's not necessarily compared to others.

5 Basically just what your company is doing and not

6 necessary comparing to what other companies may be

7 paying?

8 THE WITNESS: Yes, sir, I have compared to other companies

9 and this is what we've done in the area.

10 MR. HARRIS: Can I just follow-up? I'm going to ask about

11 specific dollar amounts. I don't know if that's

12 permitted and tell me if it isn't. Mr. Pryor, both you

13 and Mr. Keim talked about a dollar an acre and I keep

14 thinking when we did conventional before -- again I

15 guess we're not restricted to the company. But I

16 remember five dollars an acre somewhere along the way.

17 I don't know about all of the other numbers. In fact,

18 I think quite frequently five an acre -- I guess it was

19 kind of surprising. I think in coalbed methane usually

20 it's a dollar. I'm not saying that you all are not

21 paying enough. I'm just saying that --

22 THE WITNESS: Generally I have been paying five dollars an

23 acre, but in work in this area a dollar an acre is

24 generally the consensus paid. But I have been paying

25 everyone five dollars --

1 MR. HARRIS: When you say consensus you mean people say,
2 "Yeah, I'll take that" or --
3 THE WITNESS: More or less. Yes, sir. But I just really
4 started five dollars and trying -- because these people
5 have such small interests and everything if you offer
6 them a dollar an acre you might be giving them two
7 bucks or something like that. So I try to make it
8 worth their while.
9 MR. HARRIS: But this is based on just -- you all just
10 deciding. I mean, a company policy or --
11 THE WITNESS: I'm just trying to figure what the general --
12 MR. HARRIS: What's fair?
13 THE WITNESS: Yeah. What the general going rate is.
14 MR. HARRIS: Thank you.
15 MR. CHAIRMAN: Other questions of this witness?
16 MR. KING: I have a small question, Mr. Chairman. Is Cabot
17 Oil and Equitable Resources one in the same?
18 THE WITNESS: No, sir.
19 MR. KING: I notice from December of 1995 till now you're
20 showing Equitable Resources and Cabot both.
21 THE WITNESS: Yes, sir. I'm an independent landman. I do
22 contract work for different companies.
23 MR. KING: You deal with both companies?
24 THE WITNESS: Yes, sir.
25 MR. HARRIS: Mr. Keim, you're in the same situation?

1 MR. KEIM: No. I work directly for Cabot. I'm a Cabot
2 employee. Mike is a subcontractor.
3 MR. KING: Independent appraiser?
4 THE WITNESS: Correct.
5 MR. CHAIRMAN: Other questions of this witness?
6 (Witness stands aside.)
7 MR. CHAIRMAN: Call your next witness.
8 MS. HARRISON: Mr. Wampler, if I could, Mr. Keim, would you
9 please spell your last name for the record?
10 MR. KEIM: My last name is spelled K-E-I-M.
11 MS. HARRISON: Thank you. I'd call Mr. Dave McCluskey now.
12
13 DAVID McCLUSKEY
14 a witness who, after having been previously sworn, was
15 examined and testified as follows:
16
17 DIRECT EXAMINATION
18
19 BY MS. HARRISON:
20 Q. Would you please state your name and address?
21 A. My name is David G. McCluskey. I reside at 132
22 Rosewood Drive, Alicoca, Pennsylvania.
23 Q. Would you please spell your last name for the record?
24 A. M-C-C-L-U-S-K-E-Y.
25 Q. Mr. McCluskey, if you would, identify the exhibit

that's been marked as Exhibit #7 in the book which has been presented to the Board?

A. Exhibit #7 is my resume.

Q. Does this resume accurately reflect your educational background and work experience in this industry?

A. Yes, it does.

MS. HARRISON: Mr. Chairman, I would ask for the introduction of Exhibit #7 and move for the submission of Mr. McCluskey as an expert witness in this area.

MR. CHAIRMAN: It's accepted.

Q. (Ms. Harrison continues.) Will this drilling unit be for the production of natural gas?

A. Yes, it will.

Q. What are the target formations from which you intend to produce in this unit?

A. We intend to permit the well for the Raven Cliff, the Big Lime and the Burea Formations.

Q. If you would, please describe these formations for the Board?

A. The Raven Cliff is the shallowest formation. It's an Upper Mississippian sandstone. In this area it's about 65 feet thick. Unfortunately it develops porosity in very localized areas through the basin. So we're getting into this formation with less than about 10 percent chance of commercial production. The Big Lime

is a Middle Mississippian carbonate. It can be up to 1,000 feet thick. Like the Raven Cliff, it's very localized in porosity development and again we've giving the Big Lime less than a 10 percent chance of commercial production. The primary target is the Burea Formation. It's the lowest Mississippian sandstone. In this area it can be about 45 feet thick with up to 20 percent porosity production. The COGC-37 is what we call a step-out or a wildcat well. It's several miles from our nearest producing well. We're using it to try to extend the Burea field and because of this we only give the Burea about a 50/50 chance of commercial production in this well.

Q. When you said extend the Burea field do you mean you're trying to determine the extent of the Burea trend?

A. Yes. That's correct.

Q. What are the estimated amount of reserves within the COGC-37 unit?

A. On a gross basis 700 million.

Q. What would be the estimated average production of the life of the COGC-37 unit?

A. 33.9 MCF a day.

Q. If you would, identify for me the exhibit that has been marked as Exhibit #8 in the exhibit book?

A. Exhibit #8 is an updated map of the Burea porosity

trend which the Board -- we previously gave it to the Board last year. As you can see, we drilled some wells on the trend and the trend is significantly different. That COGC-5 there is a well we drilled last year. It's a dry hole which took about 20 percent of the trend as we had originally mapped it. It made it non-commercial. So that's really the only change. The other wells were fairly close to the geologic interpretation.

Q. Did you supervise the preparation of this Exhibit #*?

A. Yes, I did.

MS. HARRISON: Mr. Chairman, I would move for the introduction of Exhibit #8.

MR. CHAIRMAN: It's accepted.

Q. (Ms. Harrison continues.) Has Cabot previously drilled any wells in Tazewell County?

A. Yes. We've drilled seven wells and we are currently drilling one as we speak.

Q. Based on those wells does Cabot possess the geological well data to determine exact drainage patterns and appropriate unit sizes for this area?

A. No, we don't believe we have. I think our drilling program last year showed that the geology of the area is a little more complex than we thought and that's one reason for drilling the COGC-37 so far away from known production. It's to see if the porosity trend goes

that far south.

Q. And is that the reason that you are asking the Board for a provisional unit for the COGC-37 well?

A. That's correct.

Q. Why is the unit, as shown on the plat, 112.69 acres?

A. Without sufficient geologic information we went ahead and used statewide spacing for the unit.

Q. So the 112.69 acres is based on the spacing in 45.1-361.17?

A. That's correct.

Q. Do you plan to drill and propose additional wells and provisional units in this area?

A. Yes, we do if this is successful.

Q. If you would, look at Exhibit #G to the application and I'll ask you if those are the costs and expenses for the COGC-37 well that's set out on the authority for expenditure?

A. That's correct.

Q. Does this exhibit reflect the cost of drilling the well to total depth and completed for production?

A. Yes, it does.

Q. Mr. McCluskey, are you requesting that Cabot be designated as the well operator authorized to operate the proposed COGC-37 unit?

A. Yes, we are.

1 MS. HARRISON: Mr. Chairman, I have no further questions for
2 Mr. McCluskey.
3 MR. CHAIRMAN: Mr. McCluskey, did you prepare the AFE?
4 THE WITNESS: No. I believe Dan Grove, the drilling
5 technician did. I just reviewed and approved it.
6 MR. CHAIRMAN: We would need Mr. Grove to submit for the
7 record a signed copy of the AFE as follow-up to today's
8 hearing.
9 MS. HARRISON: All right.
10 THE WITNESS: Oh, okay. It has his name on it but I can see
11 he didn't sign it.
12 MR. CHAIRMAN: He'll need to sign and date it as part of the
13 record.
14 THE WITNESS: Okay.
15 MR. CHAIRMAN: Any questions of this witness, members of the
16 Board?
17 (Witness stands aside.)
18 MS. HARRISON: Mr. Chairman, that's all the evidence that we
19 have to present today on the COGC-37 unit. We ask that
20 the Board grant our request for relief subject to the
21 signature and date of the preparer of the AFE.
22 MR. KING: Mr. Chairman, I have a question before we have a
23 motion. Are any of these wells that have been drilled
24 on this --
25 MR. McCLUSKEY: The wells that are on here are this year's

1 program. The well has been drilled which I thought was
2 the key well to the Board as the COGC-5 which was a dry
3 hole. We have drilled the 33 well and we're currently
4 drilling the 31 up here in the middle. But none of the
5 other wells have been drilled. They're all in the
6 process of being permitted and getting rights of way
7 and that sort of thing.
8 MS. RIGGS: 5 was a dry hole. 31 is being drilled. What
9 was the third --
10 MR. McCLUSKEY: 33 is a producer. It looks okay. We've got
11 it logged. We don't have it turned in line yet.
12 MR. LEWIS: What depths were these wells?
13 MR. McCLUSKEY: Anywhere -- depending on terrain, anywhere
14 from 5,000 to 6,000 feet.
15 MR. LEWIS: According to elevation.
16 MR. McCLUSKEY: Yeah. Some are lucky enough to get in the
17 valleys and the others -- and we tried to work with the
18 coal company on that. Consolidation Coal.
19 MR. LEWIS: Did you drill any of them to the Devonian?
20 MR. McCLUSKEY: No, we have not in Tazewell County yet.
21 MR. KING: Is 33 producing?
22 MR. McCLUSKEY: Yes. It's ready for production but it's
23 not --
24 MR. KING: What's your estimated production?
25 MR. McCLUSKEY: I think we estimated 250,000 a day. Close

to 700 million. Pretty much close to what we thought. At least in the middle of the trend we seem to be doing okay.

MR. KING: Is 37 projected to do basically the same?

MR. McCLUSKEY: Yeah. Without having information we project the same sand thickness. But as you can see, there are no wells that far south. So that's why we risk it at 50 percent. We feel like this well is a key well for us.

MR. BRENT: Which ones were you talking about that you only gave 10 percent?

MR. McCLUSKEY: It's the formations. The Raven Cliff and the Big Lime. Less than 10 percent of the time we find it productive this far south. It seems very spotty, very compartment like. You might find a well and you only get two wells that have it in. You drill all around and you can't find it. I mean, the sand's there. There's no porosity.

MS. RIGGS: What's the projected depth on this well?

MR. McCLUSKEY: 6,100 feet, I believe. It's on the AFE. 6,125.

MR. KING: Is that the basic depth of 33?

MR. McCLUSKEY: I don't know whether 33 is up on the mountain or in the valley. So I can't -- somewhere between 5,000 and 6,000 is where they all are.

1 MR. LEWIS: The same formations?

2 MR. McCLUSKEY: Yeah. The same exact Burea formations.

3 MR. KING: Mr. Chairman, I move that this application be

4 approved.

5 MR. GARBIS: I second it.

6 MR. CHAIRMAN: Further discussion? All in favor signify

7 by saying yes. (ALL AFFIRM.) Opposed say no. (NONE.)

8 Unanimous approval.

9 MS. HARRISON: Thank you very much.

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ITEM VIII

MR. CHAIRMAN: The next item on the agenda is a petition from Cabot Oil and Gas for the establishment of a provisional drilling unit and pooling for a conventional gas well identified as COGC-34. This is docket number VGOB-97/05/20-0584. We'd ask the parties that wish to address the Board in this matter to come forward at this time. We'll go ahead and accept the resumes and you won't need to swear the witnesses. They remain sworn.

MS. HARRISON: For the record, I'm Jill Harrison. I practice here in Abingdon with Penn, Stuart and Eskridge. I'm here today on behalf of Cabot Oil and Gas Corporation on their force pooling application for unit COGC-34.

JEFFERY L. KEIM

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

DIRECT EXAMINATION

BY MS. HARRISON:

Q. Pursuant to 45.1-361.19 has Cabot given notice to each

1 person or entity that's been identified on Exhibit #C
2 of the unit and pooling application as a potential
3 owner of the gas, oil, coal or minerals underlying the
4 unit?
5 A. Yes, we have.
6 Q. Is the exhibit that is marked for identification as
7 Exhibit #2 the notice of hearing that was mailed along
8 with a copy of the application and exhibits to the
9 parties listed on Exhibit #C of the application?
10 A. Yes, it is.
11 MS. HARRISON: Mr. Chairman, I would move for the introduct-
12 ion of Exhibit #2.
13 MR. CHAIRMAN: They're entered.
14 Q. (Ms. Harrison continues.) How was this notice sent out
15 to these individuals?
16 A. Notice was sent by certified mail, return receipt
17 requested.
18 Q. And you presently have physical custody of the return
19 receipts?
20 A. Yes, I do.
21 Q. And are copies shown as Exhibit #3 in the exhibit book
22 presented to the Board?
23 A. Yes. These are photocopies of the return receipts that
24 I have in my possession.
25 MS. HARRISON: Mr. Chairman, I would move for the intro-

1 duction of Exhibit #3.
2 MR. CHAIRMAN: It's accepted.
3 Q. (Ms. Harrison continues.) Were any of these in-
4 dividuals identified on Exhibit #C, their names or
5 addresses unknown?
6 A. Yes, there were.
7 Q. Did Cabot publish a notice of hearing in the Bluefield
8 Daily Telegraph on April 29th, 1997?
9 A. Yes.
10 Q. Was a copy of that proof of publication previously
11 submitted to the Board?
12 A. Yes, it was.
13 Q. Is the information which is listed on Exhibit #F to the
14 application still correct?
15 A. Yes. That is correct.
16 Q. Is the information listed on Exhibits #C and #D still
17 correct?
18 A. No, it is not.
19 Q. Why is that?
20 A. Because we have acquired additional leases since the
21 original exhibit was prepared and we have identified
22 additional owners through heirship.
23 Q. If you would, identify what is marked as Exhibit #4 in
24 the exhibit book?
25 A. Exhibit #4 is a revised Exhibit #C to the pooling

application.

Q. And Exhibit #5?

A. Exhibit #5 is the revised Exhibit #D to the application.

MS. HARRISON: Mr. Chairman, I would move for the introduction of Exhibits #4 and #5.

MR. CHAIRMAN: They're accepted.

Q. (Ms. Harrison continues.) Do these revised exhibits accurately reflect the current ownership and leasehold status of the COGC-34 unit?

A. Yes, they do.

Q. Is Consolidation Coal Company the coal owner under the proposed COGC-34 unit?

A. Yes, they are.

Q. Did you receive consent for this well location from Consolidation Coal Company?

A. Yes, we did.

Q. Has a drilling permit previously been refused to Cabot on the COGC-34 unit?

A. No, it has not.

Q. What is the present status of your well work permit application on this unit?

A. We are currently noticing owners and we will file the permit application as soon as we receive the mailing receipts back.

1 Q. If you would, would you look at the plat that was
2 attached to the unit and pooling application filed by
3 Cabot and tell the Board if that indicates the acreage
4 and shape of the acreage that will be embraced within
5 the COGC-34 unit?
6 A. Yes, it does.
7 Q. Does this plat also indicate the area within which the
8 well will be drilled on this unit?
9 A. Yes, and the location of the well.
10 Q. You've previously testified as to the average fair
11 market value terms for the leases. Would you please go
12 through that again for the Board?
13 A. Yeah. We feel that a fair market value is a dollar per
14 acre bonus, a dollar per acre delay rentals, two
15 dollars per acre shut-in, and a one-eighth royalty.
16 Q. And the primary term on the leases taken in this unit?
17 A. Again, within this unit one to five years because again
18 we typically would like to buy three to five and are
19 successful. But sometimes as an inducement to avoid
20 the hearings and to expedite matters we'll offer a one
21 year to show our good faith in wanting to drill the
22 well as quickly as possible.
23 Q. Does the proposed drilling unit embrace two or more
24 separately owned tracts or separately owned interests
25 within this drilling unit?

1 A. Yes, it does.

2 Q. And those individuals have not agreed to pool their

3 interests or lease to Cabot?

4 A. That is correct.

5 Q. What percentage of the oil and gas within the unit is

6 presently owned and leased by Cabot?

7 A. Outright 23.10 percent.

8 Q. At this time what percentage of the oil and gas

9 underlying the COGC-34 unit is not owned or leased by

10 Cabot?

11 A. 76.9 percent.

12 Q. Are you requesting that the moneys attributable to the

13 unlocated owners or unknown owners be placed and held

14 in the escrow account that was previously established

15 by the Board according to the statute and regulations?

16 A. Yes, we are.

17 Q. Are you also requesting that the Board establish the

18 proposed COGC-34 unit as a provisional unit and pool

19 the interest of those individuals shown on Exhibit #C

20 to the application?

21 A. Yes, we are.

22 MS. HARRISON: Mr. Chairman, those are all the questions

23 that I have for Mr. Keim.

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

25 (Witness stands aside.)

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

2 MS. HARRISON: I take it, Mr. Chairman, the accepting of the

3 resume was also for Mr. Pryor?

4 MR. CHAIRMAN: Yes. That's right.

5

6 MICHAEL S. PRYOR, SR.

7 a witness who, after having been previously sworn, was

8 examined and testified as follows:

9

10 DIRECT EXAMINATION

11

12 BY MS. HARRISON:

13 Q. Have you worked on the identification of owners in the

14 COGC-34 unit and obtaining leases from those in-

15 dividuals or entities?

16 A. Yes, I have.

17 Q. How did you identify the owners for this unit?

18 A. I reviewed the records at the Tazewell County Court-

19 house and using title opinions and talking to residents

20 -- the local landowners.

21 Q. How did you contact these individuals?

22 A. In person when possible, by phone, and U.S. Mail.

23 Q. With regard to the unleased owners that are identified

24 as Brockford, L.C., a limited liability corporation,

25 Betty Rose Waldon and Guyann Walker, have you contacted

1 those landowners to obtain a lease?
2 A. Yes, I have.
3 Q. And I take it they have not signed leases at this time?
4 A. No, they haven't.
5 Q. With regard to the unlocated persons that are shown on
6 Exhibit #F as Thomas J. Belton whose heirs, successors
7 or assigns Thomas A. Belton whose heirs, successors or
8 assigns for George H. Hankins whose heirs, successor or
9 assigns on the revised Exhibits #C and #D, have you
10 tried to locate them in order to provide notice of the
11 application and obtain a lease?
12 A. Yes, I have.
13 Q. Did you have any success?
14 A. No. I could not find any lead for them. I talked to
15 the local landowners and the people -- any of their
16 heirs could not be located.
17 Q. Were these individuals in the chain of title to the
18 property several decades ago?
19 A. Yes, they were.
20 Q. In your opinion have you exercised due diligence in
21 attempting to locate these parties in order to serve
22 notice of the hearing?
23 A. Yes. I've done everything I know to do. I've been and
24 reviewed the records again at the courthouse and tried
25 to talk to the local landowners and have not been able

to locate any leads for these people.

MS. HARRISON: Those are all the questions I have for Mr. Pryor.

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

(Witness stands aside.)

DAVID McCLUSKEY

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

DIRECT EXAMINATION

BY MS. HARRISON:

Q. The drilling of the unit COGC-34, will that be conducted for natural gas?

A. Yes, it will.

Q. Are the target formations that you intend to produce the same as the ones you've identified previously?

A. Yes, they are.

Q. What are the estimated amount of reserves within the COGC-34 unit?

A. 700 million.

Q. Again, what is the estimated average production over the life of the COGC-34 well?

A. 33.9 MCF per day.

1 Q. If you would, if you would identify what has been
2 marked in the exhibit book as Exhibit #8?
3 A. Yes. This is the same porosity -- the Burea porosity
4 trend map previously submitted. Again, the exception
5 between this one and the one previously given to the
6 Board is the dry hole in the COGC-5 well.
7 Q. Did you supervise the preparation of this Exhibit?
8 A. Yes, I did.
9 MS. HARRISON: Mr. Chairman, I would move for the intro-
10 duction of Exhibit #8.
11 MR. CHAIRMAN: It's accepted.
12 Q. (Ms. Harrison continues.) If you would, state again
13 the wells that Cabot has previously drilled in Tazewell
14 County?
15 A. Seven wells and we are currently drilling one as we
16 speak today.
17 Q. Mr. McCluskey, the reason as in the other unit for
18 asking for a provision unit in the COGC-34 is that you
19 at this time like the geological well data to determine
20 the exact drainage patterns and appropriate unit sizes
21 for the area, is that correct?
22 A. That's correct.
23 Q. Again, why is the unit also 112.69 acres?
24 A. With the limited geologic information in this area we
25 used statewide spacing.

1 Q. Do you still plan to drill additional wells and
2 proposed units in this area?
3 A. Yes, we do.
4 Q. If you would look at Exhibit #G to the application.
5 Does this authority for expenditure contain the
6 proposed costs and expense for the COGC-34 well unit?
7 A. Yes, it does.
8 Q. Does this exhibit reflect the cost of drilling the well
9 to total depth and completed for production costs?
10 A. Yes, it is.
11 Q. Are you requesting that Cabot be designated as the well
12 operator authorized to operate the proposed COGC-34
13 unit?
14 A. Yes, we are.
15 MS. HARRISON: Mr. Chairman, again, we'll have the preparer
16 of the AFE sign it and date it and provide it to you.
17 MR. CHAIRMAN: All right.
18 MS. HARRISON: I have no further questions for Mr. McClus
19 key.
20 MR. CHAIRMAN: Questions, members of the Board?
21 (Witness stands aside.)
22 MS. HARRISON: Mr. Chairman, we have no further proof and
23 would ask the Board to consider our request at this
24 time.
25 MR. CHAIRMAN: Do we have a motion?

1 MR. GARBIS: I make a motion to approve the application.
2 MR. HARRIS: Second.
3 MR. CHAIRMAN: Further discussion? All in favor signify
4 by saying yes. (ALL AFFIRM.) Opposed say no. (NONE.)
5 Unanimous approval.
6 MS. HARRISON: Thank you very much.
7 MR. HARRIS: May I ask Mr. McCluskey just a real quick
8 question unrelated to anything you said. I notice in
9 your resume back in 1980 you were with Texaco as a tool
10 pusher. What's that? Could you just explain?
11 MR. McCLUSKEY: It's out on the drilling rig. The head man
12 is called the tool pusher.
13 MR. HARRIS: Are you really pushing? I just thought that
14 was real odd.
15 MR. McCLUSKEY: In the old days they use to do that. They
16 called them tool pushers because you ran the whole
17 drilling crew and you pushed them to get the tools to
18 the bottom. So it's kind of a carry-over from the
19 really old days.
20 MR. HARRIS: Okay. Thank you. I was just wondering.
21 MR. McCLUSKEY: Not me that old, the term.
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ITEM IX

MR. CHAIRMAN: The next item on the agenda is a petition from Equitable Resources Energy Company for the pooling of a coalbed methane unit for the Nora Coalbed Gas Field order identified as VC-2399. This is docket number VGOB-97/05/-20-0585. We'd ask the parties that wish to address the Board in this matter to come forward at this time.

MR. KAISER: Mr. Chairman and members of the Board, Jim Kaiser on behalf of Equitable Resources Energy Company. Purely for a -- how can I put this? I guess to mannerly or nice apparently I told you and a couple of people that I have talked to we also have Item X on the docket.

MR. CHAIRMAN: Right.

MR. KAISER: Which is a force pooling for VC-3655. I was notified within the last week that based on some title reports that came in that we have three additional interest owners within that unit. So we're going to have to ask for that matter to be continued. Apparently we have quite a few -- we may have quite a few people here today on that well.

MR. CHAIRMAN: Do you want to call that one first? Is that what you're saying?

1 MR. KAISER: Yeah, I guess, and that way if they've got
2 other things they need to get on to -- or they may want
3 to say something today. Myself and the Equitable
4 people would be more glad to meet with any of them that
5 would like to meet after today's hearing is concluded
6 to address any concerns or questions or whatever they
7 might have. So it can go either way on that. We're
8 just trying to be nice to them.
9 MR. CHAIRMAN: I don't have any problem going to that item
10 on the agenda. The Board, I don't believe, will have
11 any problem allowing anybody that came here today with
12 information to present to the Board to present that
13 data today. We will receive it in the record, keep the
14 information and the hearing open, continue it to next
15 hearing. You're certainly not barred from coming again
16 once you've presented that data. It's up to you, in
17 other words. So we'll go ahead and call the next item.
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ITEM X

MR. CHAIRMAN: The Board will consider a petition from Equitable Resources Energy Company for the pooling of a coalbed methane unit under Nora Coalbed Gas Field order identified as VC-3655. This is docket number VGOB-97/05/20-0586. We'd ask the parties that wish to address the Board in this matter to come forward at this time.

MR. KAISER: Once again Mr. Chairman and members of the Board, Jim Kaiser on behalf of Equitable Resources Energy Corporation. At this point I'd like to make a formal request that the hearing on that matter be continued due to the fact, as I stated previously, that we have identified three additional interest owners within the unit subsequent to the filing of the application on April 17th.

MR. CHAIRMAN: So you're requesting to continue that till next month's hearing?

MR. KAISER: Yes, sir.

MR. CHAIRMAN: Do any of the people that came here today wish to present any information for the Board or do you prefer to wait until next month when the Board hears the case?

MR. ADDINGTON: What I have a question on is I just wonder

1 if it was on the Z.T. Sutherland tract of gas and coal
2 and stuff?
3 MR. CHAIRMAN: Could you just for the record identify
4 yourself, please?
5 MR. ADDINGTON: I'm David Addington. I live in Clintwood.
6 MR. BAKER: The Z.T. Sutherland portion of the tract, I
7 believe, on the well plats is identified as Tract 4, 5
8 and 6 and those heirs are part of the unit that -- some
9 of them are unknown and some of them are unleased that
10 we will be asking the Board to force pool.
11 MR. CHAIRMAN: So the answer to his question is that is it
12 included in this unit?
13 MR. BAKER: Yes.
14 MR. ADDINGTON: From the maps that I've seen I knew it was.
15 MR. CHAIRMAN: Any others that wish to present anything to
16 the Board at this time? As I said, this will be --
17 they've requested to continue the hearing. The Board
18 has to grant that from the standpoint that they have
19 other parties that they've located that they need to
20 notify.
21 MR. ADDINGTON: That's all right. I mean, everybody that's
22 in it should be notified and here if they can get here.
23 That's the fair way to do it.
24 MR. CHAIRMAN: Yes, sir.
25 MR. LEWIS: I make a motion we continue it.

1 MR. BRENT: Second.

2 MR. CHAIRMAN: Further discussion? All in favor of

3 continuing the hearing signify by saying yes. (ALL

4 AFFIRM.) The hearing will be continued.

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ITEM IX

MR. CHAIRMAN: We'll go back to docket number VGOB-97/05/20-0585 and ask the parties that wish to address the Board in this matter to come forward at this time. This is well VC-2399.

MR. KAISER: Mr. Chairman, Jim Kaiser on behalf of Equitable Resources Energy Corporation. Our witnesses in this matter will be Mr. Dennis Baker and Mr. Bob Dahlin who were previously sworn earlier this morning.

MR. CHAIRMAN: You may proceed.

DENNIS R. BAKER

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

DIRECT EXAMINATION

BY MR. KAISER:

Q. Mr. Baker, would you state your name for the record, who you're employed by and in what capacity?

A. My name is Dennis Baker. I'm employed by Equitable Resources Energy Company as senior landman.

Q. Do your responsibilities include the land involved here under this drilling unit and in the surrounding area?

1 A. Yes, they do.

2 Q. Are you familiar with Equitable's application for the

3 establishment of a drilling unit and request for a

4 pooling order for EREC well VC-2399 dated April 17th,

5 1997?

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. Yes.

11 Q. Does Equitable own drilling rights in the unit involved

12 here?

13 A. Yes, we do.

14 Q. Does the location proposed for well VC-2399 fall within

15 the Board's order for the Nora Coalbed Gas Field dated

16 March 20th, 1989?

17 A. Yes, it does.

18 Q. Would you state the interest of Equitable in the gas

19 estate within the unit?

20 A. At the time of application the gas estate interest

21 leased to Equitable was 99.995 percent.

22 Q. Has there been any change in that subsequent to the

23 filing of the application?

24 A. No, there has not.

25 Q. Could you state the percent of the interest of the coal

1 estate that's under lease to Equitable at this time?
2 A. The interest at the time of application as well as the
3 hearing is 99.955 percent.
4 Q. Are you familiar with the ownership of drilling rights
5 of parties other than Equitable underlying this unit?
6 A. Yes.
7 Q. What are they, both in the gas estate and coal estate?
8 A. The same percentages in the gas estate as well as the
9 coal estate unleased is .045 percent.
10 Q. Are all unleased parties set out at Exhibit #B?
11 A. Yes, they are.
12 Q. Prior to filing the application were efforts made to
13 contact each of the unleased respondents and an attempt
14 to work out an agreement regarding the development of
15 the unit involved?
16 A. Yes.
17 Q. Subsequent to the filing of the application have you
18 continued to attempt to reach an agreement with the
19 unleased respondents listed at Exhibit #B?
20 A. Yes, we have.
21 Q. As a result of these efforts have you been able to
22 acquire any other leases from these unleased owners?
23 A. No.
24 Q. Were efforts made to determine if the individual
25 respondents were living or deceased or their where-

abouts and if deceased were efforts made to determine the names, addresses and whereabouts of the successors to any deceased individual respondents?

A. Yes.

Q. In the case of unknown heirs which we don't have here -- well, skip that question. In your professional opinion was due diligence exercised to locate each of the respondents named herein?

A. Yes, it was.

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

A. Yes.

Q. Are you requesting the Board today to force pool all unleased interests listed at Exhibit #B?

A. Yes, we are.

Q. Does Equitable seek to force pool the drilling rights of each individual respondent if living and if deceased the unknown successor or successors to any deceased individual respondent?

A. Yes.

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

A. Yes, we are.

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

A. Yes, I am.

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

A. Yes. A five dollar per acre consideration, five year term with a one-eighth royalty.

Q. Did you gain your familiarity by acquiring oil and gas leases, coalbed methane leases and other agreements involving the transfer of drilling rights in the unit involved here and in the surrounding area?

A. Yes, I did.

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

A. Yes.

Q. Based on this testimony and as to the respondents who have not voluntarily agreed to lease do you recommend that the respondents listed at Exhibit #B who remain unleased be allowed the following options with respect to their ownership interests within the unit; 1) Participation. 2) A cash bonus of five dollars per net mineral acre plus a one-eighth of eight-eighths royalty. 3) In lieu of a cash bonus and one-eighth of

eight-eighths royalty, share in the operation of the well on a carried basis as a carried operator under the following conditions; Such carried operator shall be entitled to the share of production from the tracts pooled accruing to his interest exclusive of any royalty or overriding royalty reserved in any leases, assignments thereof or agreements relating thereto of such tracts but only after the proceeds allocable to his share equal A) 300 percent of the share of such costs allocable to the interest of the carried operator of a leased tract or portion thereof, or, B) 200 percent of the share of such costs allocable to the interest of the carried operator of an unleased tract or portion thereof?

A. That is correct.

Q. Do you recommend that the order provide that elections by a respondent be in writing and sent to the applicant at Equitable Resources Energy Company, Eastern Region, PO Box 1983, Kingsport, Tennessee, 37662, attention Dennis R. Baker, regulatory?

A. That is correct.

Q. Should this be the address for all communications with the applicant concerning the force pooling order?

A. Yes.

Q. Do you recommend that the force pooling order provide

that if no written election is properly made by a respondent then such respondent should be deemed to have elected to cash royalty option in lieu of participation?

A. Yes.

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

A. Yes.

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

A. Yes.

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

A. Yes.

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

A. Yes.

Q. Do you recommend that the force pooling order provide that if a respondent elects to participate but fails to

1 pay their proportionate share of well costs satis-
2 factory to the applicant for payment of well costs the
3 respondent's election to participate should be treated
4 as having been withdrawn and void and such respondent
5 should be treated just as if no initial election had
6 been filed under the order?
7 A. Yes.
8 Q. Do you recommend that the order provide that where a
9 respondent elects to participate but defaults in regard
10 to the payment of well costs any cash sum becoming
11 payable to such respondent be paid within 60 days after
12 the last date on which such respondent could have been
13 paid or made satisfactory arrangements for the payment
14 of well costs?
15 A. Yes.
16 Q. Do you recommend that the order provide that if a
17 respondent refuses to accept any payment due, including
18 any payment due under said order, or any payment of
19 royalty or cash bonus or if said payment cannot be paid
20 to a party for any reason or there is a title defect in
21 the respondent's interest that the operator pay into an
22 escrow account created by this Board or in the event of
23 conflicting claims to the coalbed methane that the
24 operator pay into an escrow account created by this
25 Board into which all costs or proceeds attributable to

the conflicting interest shall be held for the respondent's benefit until such funds can be paid to the party by order of this Board or until the title defect or conflicting claim is resolved to the operator's satisfaction?

A. That's correct.

Q. Mr. Baker, who should be named the operator under this force pooling order?

A. Equitable Resources Energy Company.

MR. KAISER: That's all I have of this witness at this time, Mr. Chairman.

MR. CHAIRMAN: Mr. Baker, is the well plat -- does the location of the well on the well plat currently reflect where you plan to drill the well?

THE WITNESS: Yes.

MR. CHAIRMAN: Other questions of this witness, members of the Board?

(Witness stands aside.)

MR. CHAIRMAN: You may call your next witness.

ROBERT A. DAHLIN, II

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

DIRECT EXAMINATION

BY MR. KAISER:

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

A. My name is Robert A. Dahlin, II. I'm employed by EREC as a production specialist.

Q. Have you previously testified before the Virginia Gas and Oil Board and have your qualifications as an expert witness previously been accepted by the Board?

A. Yes.

Q. Do your responsibilities include the land involved here and in the surrounding area?

A. Yes.

Q. Are you familiar with the proposed exploration and development of the unit involved here under the applicant's proposed plan of development?

A. Yes, I am.

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

A. 2,525 feet.

Q. Will this be sufficient -- be consistent with the formations included in the well work permit?

A. Yes.

Q. And will this be sufficient to penetrate and test the

common sources of supply in the subject formations?

A. Yes, it will.

Q. What are the estimated reserves of this unit?

A. 300 million cubic feet.

Q. Are you familiar with well costs for the proposed well under the applicant's plan of development?

A. Yes, I am.

Q. Has an AFE been reviewed, signed and submitted to the Board along with this application?

A. Yes.

Q. Was this AFE prepared by an engineering department knowledgeable in the preparation of AFEs and knowledgeable in regard to well costs in this area?

A. Yes.

Q. Does this AFE in your opinion represent a reasonable estimate of the well costs for the proposed unit well under the applicant's plan of development?

A. Yes, it does.

Q. Could you please state for the Board both the dry hole costs and the completed well costs for VC-2399?

A. The dry hole costs are $79,737 and the completed costs are $192,200.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does the AFE prepared for the Board include a reason-

able charge for supervision?

A. Yes, it does.

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

A. Yes.

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

MR. CHAIRMAN: Questions, members of the Board? Is this proposed location in the provisional area?

THE WITNESS: No. This is in the first modified area.

MR. CHAIRMAN: Okay. Further questions?

MR. HARRIS: Mr. Chairman, let me just make a comment. I know you asked earlier about the well plat. When I look at the well plat I have no reference, which is kind of disturbing, other than it says Prater Quadrangle and Hurricane District and all of this. When I look I see a couple of blocks and there are no roads, mountains, features and it's -- maybe we get these occasionally or whatever. But I guess I'm just so use to seeing some kind of reference where you can say this is near something or whatever. Is there any kind of -- sometimes they even have a little map of the county and it will show a location. Was that just left off or

was there -- I don't know who I'm addressing the question to.

MR. BAKER: The well plat follows basically what we've submitted with all the force pooling applications. If you would like to see a topo map or a county map or something --

MR. HARRIS: It may have been another company that use to give like the county -- just a miniature postage stamp size picture of the county with an X or a dot or something at least showing -- when I look at a square I see a square and I'm trying to envision where in Buchanan County this -- where this is.

MR. KAISER: Mr. Harris, on both our publication notice and our notice of hearing that goes out to the unleased parties we do reference it as being located on a high surface, mine ridge near the head of Spruce Pine Branch of Little Fox Creek, approximately two miles northeast of Murphy on the Prater Quadrangle in the Hurricane District. So at least in a narrative sense that provides a more detailed explanation of the location.

MR. HARRIS: I guess I was asking about roads and houses and whatever nearby on the surface.

MR. KING: It would be nice to have, really.

MR. HARRIS: I guess some reference. I don't know how detailed it needs to be but it would -- this may have

been typical of what you all were submitting. But when I looked at this and I saw the 1,600 foot sides and the 300 foot -- the area that's there and then I looked at everything else I see that again -- the coordinates but it doesn't say anything to me about where it is. I don't know what would solve that.

MR. DAHLIN: I can't offer any further explanation about the plat. But just for reference about where this well is, this is in the northwest adjoining unit to well 2400, the one that was -- the well was permitted in the first modified Oakwood Field. It adjoins it to the northwest.

MS. RIGGS: You're referring to the plat attached to the one that was continued.

MR. KING: That's on the road over in Haysi toward Grundy? Route 80?

MR. DAHLIN: The other way.

MR. KAISER: There will be a new plat.

MR. CHAIRMAN: Typically the plats that we're accustomed to are those that would identify the parties so that when you're talking about conflicting interests on a tract and things like that, you know, we and everybody can see that.

MR. HARRIS: I guess Tract 1 is 98 percent of this, it looks like.

1 MR. KAISER: Yeah. I may be reaching but I think that's
2 probably the case here. When you see the entire unit
3 is Tract 1 except for that little nick of the corner
4 there.
5 MR. CHAIRMAN: I understand how that could happen. I was
6 suggesting, though, the other type that you had in Item
7 X that was continued. That's why we've seen those
8 others. But in this one you don't have the conflicting
9 claim.
10 MR. KAISER: Right.
11 MR. CHAIRMAN: Other questions? Mr. King, did you get your
12 question answered?
13 MR. KING: Well, part of it.
14 MR. KAISER: I think probably because of the makeup of this
15 unit this plat is an exception rather than the rule.
16 MR. KING: That's fine, Mr. Chairman.
17 MR. CHAIRMAN: Further questions?
18 (Witness stands aside.)
19 MR. CHAIRMAN: Do you have anything further?
20 MR. KAISER: Nothing further, Mr. Chairman. We'd ask that
21 the application be approved as submitted.
22 MR. LEWIS: I make a motion that we approve the application.
23 MR. GARBIS: I second it.
24 MR. CHAIRMAN: A motion and a second. Further discussion?
25 All in favor signify by saying yes. (ALL AFFIRM.)

1 Opposed say no. (NONE.) Unanimous approval. Thank
2 you.
3 MR. KAISER: Thank you.
4 MR. CHAIRMAN: For the next hearing, other than whatever the
5 normal agenda items and the ones that we continued
6 today, we hope to have the synopsis prepared by the
7 staff of the Department of Mines, Minerals and Energy
8 back to the Board and we'll try to get that in your
9 hands prior to the hearing. Based on the comments that
10 we heard from a number of citizens and Buchanan County
11 in particular last time. Delegate Jackie Stump called
12 me yesterday and asked that I specifically let the
13 Board know that rather than him appearing at every
14 Board meeting he wanted to reiterate the concerns of
15 the citizens and ask the Board to take every step
16 possible to assist in any way as we're drafting these
17 rules and regulations and consider those that may
18 address those concerns raised at the public hearing
19 that we had. To facilitate the Board's consideration
20 on those -- a number of those comments went beyond the
21 Board rules and regulations to the Department's rules
22 and regulations which are still open, will be open at a
23 subsequent date and open for public hearing. We're
24 going to try to go through and sort out which ones --
25 well, we will go through and sort out which comments

1 are pertinent to the Board regulations and which are
2 pertinent to the Department regulations and automatic-
3 ally carry those that are relative to the Department
4 regulations over into the Department's consideration
5 when those are right for consideration. In other
6 words, when they get announced for public comment and
7 public hearing. So that will be on the agenda next
8 time for consideration of adopting Board rules and
9 regulations as well as these.
10 MR. KAISER: So there will be further discussion as to the
11 concerns that were raised concerning the Board regulat-
12 ions?
13 MR. CHAIRMAN: Yes. The Board will have to consider -- what
14 the Board has to do is make a determination on how it
15 responds to the public concerns raised and in the
16 adoption of those Board rules and regulations.
17 MR. KING: I've got a couple of concerns, Mr. Chairman.
18 When are these applications closed? I mean, are they
19 suppose to be in -- my concern is I'm not getting the
20 agenda -- I got this Friday. It takes a little while
21 to go through it. Is there any way we could get it a
22 little quicker?
23 MR. CHAIRMAN: Bob, can you answer that?
24 MR. WILSON: I can't.
25 MR. CHAIRMAN: Would you carry that back and ask that they

1 ~~~t it in the mail the absolute first day that we have
2 the application?
3 MR. WILSON: I see no reason they couldn't get it out a bit
4 earlier.
5 MR. KING: When you've got this much to look through it
6 takes a while.
7 MR. CHAIRMAN: That's exactly right. You should have them
8 as soon as they can possibly get them out to you.
9 MR. KING: And my other question is we got a copy of the
10 state audit on the escrow account. There was a lot of
11 reference that that was the responsibility of the Board
12 and that we certainly need to make some decisions and
13 look at the thing. I really would like to talk to --
14 it is Mr. King, isn't it --
15 MR. CHAIRMAN: Yes.
16 MR. KING: -- that comes from the bank?
17 MR. CHAIRMAN: That's right.
18 MR. KING: If we could put that on the agenda for next
19 meeting and maybe discuss that audit because he did
20 bring up some points that I think --
21 MR. CHAIRMAN: Well, one thing we've done -- I'm not trying
22 to delay that, but at the last Board meeting I believe
23 we decided -- I can't remember if you were here or not.
24 MR. KING: I was here.
25 MR. CHAIRMAN: We decided to authorize Tom Fulmer -- and he

1 is moving forward with that -- to procure a complete
2 audit of the escrow agent -- of the funds. In other
3 words, not just look at how much money is in the bank
4 which has been done but look at all the strings of
5 money that's going in, how it's going in, from what
6 company, is everything being paid in that's suppose to
7 be paid in, a comprehensive audit. I'm not saying that
8 addresses what you wanted to do, but we are moving in
9 that regard. He is already well on the way of getting
10 that out in RVP for someone to come in and do that
11 type of audit which will present back to the Board
12 hopefully a comprehensive audit that will make recom-
13 mendations on how the system might be improved, both
14 from a company prospective as well as our office
15 -- the Department's offices in handling business.
16 MR. KING: I got the impression that the audit department
17 that did that -- is that the Department of Mines,
18 Minerals and Energy Department of Auditing?
19 MR. CHAIRMAN: The one that did the general audit that you
20 received was the internal auditor for the Department of
21 Mines, Minerals and Energy who reports to the State
22 internal auditor -- that conducts those type of audits
23 without supervision by me, for example, or anything
24 like that and makes those recommendations..
25 MR. KING: Right.

1 MR. CHAIRMAN: When he submitted that to me I forwarded it
2 out just to keep the Board aware of anything that we're
3 responsible for.
4 MR. KING: There was quite a few items there that he
5 recommended needed to be looked at.
6 MR. CHAIRMAN: Right.
7 MR. KING: And that's what Tom's going to do?
8 MR. CHAIRMAN: That will be incorporated in this procurement
9 of an auditor to look at all that. That will be --
10 they will go down those and others that we've added to
11 that.
12 MR. KING: Does that come up for bid from different --
13 MR. CHAIRMAN: It does. In fact, the current contract for
14 escrow agent is extended through July of 1998 current-
15 ly. So sometime this fall it will go back out for
16 procurement of an escrow agent for the Board, for
17 other folks to be able to bid on that.
18 MR. KING: To bid on it then?
19 MR. CHAIRMAN: Yes. To be the escrow agent.
20 MR. HARRIS: You were asking about the agent as opposed to
21 the auditor?
22 MR. KING: No. I'm asking about the agent now.
23 MR. CHAIRMAN: Yeah. He changed from the auditor to agent.
24 MR. HARRIS: Okay.
25 MR. KING: But it does come up for bid. I thought there was

1 some comment about that.

2 MR. CHAIRMAN: Yes. That does come up for bid. Now, back

3 to your question. Having said that, would you still

4 like to get Mr. King here or do you -- I'm not --

5 MR. KING: I don't know when Tom plans to get this available.

6 MR. CHAIRMAN: Well, it's moving through the procurement

7 system right now. That should be sometime this month

8 on the street for people to bid to do the audit. And

9 when that audit is completed -- I can't tell you what

10 that will be but probably -- I can reasonably say

11 probably September.

12 MR. KING: So we can maybe see it by September?

13 MR. CHAIRMAN: Yes. Anything further?

14 MR. KING: That's getting a pretty good chunk of money.

15 MR. CHAIRMAN: It's a lot of money. It sure is.

16 MR. KING: And we're protecting all those people.

17 MR. CHAIRMAN: That's right. All right. Well, that

18 concludes our business today. Thank you.

19

20 (End of Proceedings for
May 20, 1997.)

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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 May 20, 1997 at the Southwest Virginia 4-H Center, Hillman Highway, 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 6th day of June, 1997.

Deborah J Bise

DEBORAH J. BISE
NOTARY PUBLIC

My commission expires September 30, 2000.