

IN THE COUNTY OF RUSSELL

VIRGINIA DEPARTMENT OF MINES, MINERALS AND ENERGY
VIRGINIA GAS AND OIL BOARD

FEBRUARY 16, 2010

APPEARANCES:

BOARD MEMBERS:

MARY QUILLEN - PUBLIC MEMBER
KATIE DYE - PUBLIC MEMBER
BRUCE PRATHER - OIL REPRESENTATIVE
BILL HARRIS - PUBLIC MEMBER

CHAIRMAN:

BUTCH LAMBERT - CHAIRMAN OF THE VIRGINIA GAS & OIL BOARD

DAVID ASBURY - DIRECTOR OF THE DIVISION OF GAS & OIL AND
PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD

DIANE DAVIS - STAFF MEMBER OF THE DGO

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BUTCH LAMBERT: Good morning, ladies and gentlemen. It's now 9:00 o'clock. Time to begin. I'd like to remind that you have cell phones, pages or other electronic devices, please turn those to mute. These proceedings are being recorded and those interfere with our recordings. Also, if you'll notice today that we have a sound system set up. I hope everyone can hear much better today. But I also have to say that you'll have to keep your chit chat down in the audience because these are very sensitive and it's...they're picking everything even out in the audience and that's very difficult if you'll speaking over us or trying to speak over someone that's testifying it's difficult for our recorded to hear that. So, please keep your chit chat down to yourselves and if you have to talk, please go outside to do that. I apologize for having to be so forward with that, but we've had some concerns about folks not being able to hear. So, we're trying out some new sound system to see if we can remedy that situation. But, again, these are very sensitive mikes. So, please keep your talking down. Thank you.

We'll begin this morning by opening up for...the Board will receive public comments. We have no one that signed up for public comments. So, at this time, I'll go ahead and ask the Board if they'll please introduce

themselves beginning with Ms. Dye.

KATIE DYE: Good morning, I'm Katie Dye and I'm public member from Buchanan County.

SHARON PIGEON: I'm Sharon Pigeon with the office of the Attorney General.

BUTCH LAMBERT: I'm Butch Lambert with the Department of Mines, Minerals and Energy.

BILL HARRIS: I'm Bill Harris, a public member from Wise County.

BRUCE PRATHER: I'm Bruce Prather. I represent the Oil and Gas Industry on the Board.

MARY QUILLEN: Mary Quillen, public members.

DAVID ASBURY: David Asbury, Principal Executive to the Staff of the Board and the Director of the Division of Gas and Oil.

DIANE DAVIS: Diane Davis with the Division of Gas and Oil.

BUTCH LAMBERT: Thank you. At this time, I'd like to change the docket around just a bit and the first item that I'm going to call is item number twenty on the docket. That's a petition from CNX Gas Company, LLC for disbursement of funds from escrow and authorization of direct payment of royalties for a portion of Tract 4, unit AW116, docket number VGOB-01-0116-0858-01. All parties wishing to

testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

MARK SWARTZ: Thank you.

(Anita Duty is duly sworn.)

ANITA DUTY

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Could you state your name for us, please?

A. Anita Duty.

Q. Who do you work for?

A. CNX Land Resources.

Q. And in regards to this position, what do you do for them?

A. I make sure that the escrow account... account for all the funds that we've sent out.

Q. With regard to this petition for disbursement, what tract are we talking about?

A. Tract 4.

Q. And are we talking about all of Tract 4 or just partial?

A. A portion.

Q. Have you provided the Board with the application...in the application, have you provided to the Board...have you provided an accounting?

A. Yes.

Q. Okay. And is that as of a specific date?

A. November the 30th, 2009.

Q. And to do that accounting what records did you have or did you need and have access to?

A. Compared CNX both the accounting records against the bank's ledger sheets to make sure all of the deposits were accounted for (inaudible).

Q. Okay. And as of November the 30th of '09, what was the amount due (inaudible) with regard to Tract 4?

A. \$32,045.

Q. In terms of the disbursement, correct?

A. Yes.

Q. And what was the amount on deposit?

A. Oh, I'm sorry. \$17,579.52.

Q. You said the disbursement request here was a very small portion, is that correct?

A. Yes.

Q. And the escrow account should be able to continue past this date?

A. Yes.

Q. Have you identified the folks that are to receive the disbursements out of Tract 4?

A. Yes.

Q. And they are?

A. Jack Hughes.

Q. And the reasons that we were just talking about, Mr. Hughes, his escrow was as a result of being unlocateable?

A. Yes.

Q. And we find him?

A. Yes.

Q. And so we didn't do a lot of notice or mailing because this is just we found the guy who we owe money out of escrow to and we're taking care of it?

A. That's correct.

Q. Okay. So, the escrow agent though, when the Board directs them to make the disbursement should they use an amount of money or should the bank use a percentage?

A. A percentage.

Q. Okay. And that percentage is to get it in the (inaudible)?

A. 0.1846%.

Q. Okay. And after this disbursement occurs

to Mr. Hughes, are you asking permission from the Board to pay him directly in the future as opposed to escrowing his funds?

A. Yes.

MARK SWARTZ: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Swartz?

MARK SWARTZ: No.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BILL HARRIS: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All in favor, signify by saying yes.

(All Board members signify by saying yes, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz. The next item I'd like to call is item twenty-one on the docket. A petition from CNX Gas Company,

LLC for disbursement of funds from escrow and authorization for direct payment of royalties for a portion of Tract 3, unit CC-28, docket number VGOB-92-1020-0280-01. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, would you state your name for us?

A. Anita Duty.

Q. And who do you work for?

A. CNX Land Resources.

Q. In respect to this application, what do you do for them?

A. Compare the escrow ledger sheets and compare the deposits.

Q. And here we have a number of people involved in the disbursements correct?

A. Yes.

Q. What did you do to tell people that there

was going to be a hearing today?

A. Mailed by certified mail, return receipt requested on January 22nd.

Q. And did you also publish?

A. No, we didn't.

Q. And did you mail to all of the folks that are listed in the relief sought paragraph?

A. I did.

Q. Okay. And you have proofs of certificates of mailing that you will provide to Mr. Asbury, if you haven't already?

A. Yes.

Q. Is this a...this disbursement request pertains to what tract?

A. A portion of Tract 3.

Q. Okay. And CC-28?

A. Yes.

Q. Did you do an accounting with regard to the funds on deposit with regard to that tract?

A. Yes.

Q. And was that done as of a particular date?

A. November the 30th, 2009.

Q. And to do that accounting, what records were available to you for you to use?

A. I compared CNX's records to the banks to make sure all of the deposits were accounted for.

Q. And after you did that, what did you find?

A. They were in balance.

Q. As of 11/30/09, with regard to Tract 4, what was the amount...the total amount with regard to Tract 4 on deposit?

A. \$2,341.56.

Q. And we're not going to be disbursing all of that...all of those, but not quite, correct?

A. Correct.

Q. So, the escrow account will need to be maintained with regard to CC-28 and in particular with regard to Tract 4 because...with regard to Tract 4 because there will be a little bit money left?

A. Yes.

Q. Okay. Have you listed on Exhibit A, the folks who are to receive this disbursement that is being proposed?

A. I have.

Q. And Coal Mountain is to receive what percentage?

A. 47.9663%.

Q. Okay. And then you're listed a number of

oil and gas heirs, correct?

A. Yes.

Q. And opposite each name, have you set forth the percentage that those folks should each receive?

A. I have.

Q. And if we were to add up the oil and gas disbursement percentages, would it equal the 47.9663% on the coal side?

A. Yes.

Q. When the escrow agent makes these disbursements should the agent use the percentage?

A. Yes.

Q. And in the event that this application is approved and the disbursements are made, are you requesting that the operator be allowed to pay all of these people on a going forward basis rather than escrowing their funds?

A. Yes.

Q. Have you seen the split agreements here?

A. I have.

Q. And are they in writing?

A. Yes.

Q. And signed by all of the folks that you've listed on Exhibit A?

A. Yes.

Q. And what are the terms of that agreement in terms of the percentage?

A. 50/50.

Q. And your chart has accomplished a 50/50 division?

A. Yes.

Q. Have you provided Mr. Asbury with W-9s for most, but not all of the people here?

A. I have them to give him, yes.

Q. Okay. So, you have all of the W-9s for this---?

A. No.

Q. Okay. So, you have...whose W-9s are you missing?

A. There's about fourteen people. Do you want me to put those in the record.

Q. Okay. Would do that for us?

A. Okay. Margaret Gillespie, we had a return of being deceased. So, we (inaudible) Patricia Harman, Jack Hughes, Sheila Jancowski, Shannon McGraw, Darrell Rose, Goldie Rose, Ricky Rose, Rhonda Rose, Burton Rose, Francis Kate Shortt, Brandon Sisk, Charles Sisk, Keith Sisk and Charlene Thompson.

Q. So, are you proposing that the escrow agent

be allowed to make the disbursement to all of the people that we have W-9s from that would be provided in the order and that the...so that we don't hold everyone up?

A. Yes.

DAVID ASBURY: We can't do that.

MARK SWARTZ: Why not? I mean---.

ANITA DUTY: Do you want us to remove---?

DAVID ASBURY: You'd have to remove the ones that did not have a W-9.

MARK SWARTZ: We could just do that in the order.

DAVID ASBURY: Okay.

MARK SWARTZ: Okay. We'd like to do that because there's a whole bunch of people here and we're like to get them paid. We have sent W-9s to all of these people. It's just that we don't have them back.

ANITA DUTY: Right. This actual disbursement was a 114 people. So, out of those, 14 we don't have them.

MARK SWARTZ: And, I guess, our position is that we should let people who don't return W-9s or respond to mail that you've sent them hold up a 100 people from receiving their funds.

BUTCH LAMBERT: Just remove them.

MARK SWARTZ: So, we'll just delete them. We'll work with David and just delete them from the order so the

bank gets an order that here are the folks and that they are...if we get their W-9s we can deal with that on a supplemental.

ANITA DUTY: Or would you rather have like a revised Exhibit A?

DAVID ASBURY: I need a revised Exhibit A.

MARK SWARTZ: We can do that.

DAVID ASBURY: Yes.

MARK SWARTZ: Okay. Cool. With that caveat, I think I'm done, Mr. Chairman.

BUTCH LAMBERT: Just one clarification, Mr. Swartz. I think we're talking about Tract 3.

MARK SWARTZ: That's right.

BUTCH LAMBERT: And you were testifying to Tract 4.

MARK SWARTZ: Well, when we fix Exhibit A, we need change the 4 to a 3. Okay, I was and I'm sorry. It is true.

SHARON PIGEON: She testified to 3. I trusted her over you.

MARK SWARTZ: Good move.

BUTCH LAMBERT: Whoa.

MARK SWARTZ: Okay.

BUTCH LAMBERT: Any further questions from the Board?

BILL HARRIS: Mr. Chairman, I do have a couple of---.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: ---real quick questions. One is about this Exhibit A that we just talked about, a revised Exhibit A. What does that do in terms of the order to go ahead and pay these people? If other people submit their W-9s do they automatically begin to get paid or do---?

MARK SWARTZ: We're going to have to come back.

BILL HARRIS: You would have to come back?

MARK SWARTZ: Or submit a supplemental order, you know, which you might be comfortable with.

DAVID ASBURY: It makes it clearer if you come back to the Board.

BILL HARRIS: But you...well, okay. I mean, the potential for that is like fourteen different trips back.

ANITA DUTY: Well, we'd kind of wait until we had---.

BILL HARRIS: Accumulated two or three or something.

ANITA DUTY: Yeah, we don't want to do it one at a time.

BILL HARRIS: Yeah. Okay. Okay. That was the first question. The other question is about Exhibit that

you did present to us and I'm just a little confused about the owner's percent of escrow and it has 50% in parenthesis, but then down below there's a different number. Could---?

MARK SWARTZ: That's the 50% interest.

BILL HARRIS: So, you're saying that it's a 50/50 split and then the 49...47.9 is the actual owner's percent of the total?

MARK SWARTZ: On a 50/50 basis. The 47.9663 is the owner's percentage. So, they've got 50/50...the column heading says...is simply saying that they've got a 50/50 agreement.

BILL HARRIS: Yes, okay.

MARK SWARTZ: And, for example, Coal Mountain, let's take the coal, oil and gas. You would multiply 47.9663 times 2 and that's the percent that they're taking out of escrow on a combined basis and they're dividing it in half. So---.

BILL HARRIS: Okay. Okay. I just wanted to---.

MARK SWARTZ: Does that help or not?

BILL HARRIS: Yes, yes. I just wanted to make sure that they weren't meant to be the same. But, yes, one is the owner's percent as such and then the other is the 50/50 split.

MARK SWARTZ: 50/50 basis that's what they get out

of escrow. That's what that's intended to say.

BILL HARRIS: Okay. Yeah, okay, I understand.

Thank you.

DAVID ASBURY: May I ask a question, Mr. Chairman.

BUTCH LAMBERT: Mr. Asbury.

DAVID ASBURY: If I sum all of this owner's percent column for those being disbursed as part of the G. W. Sisk Heirs, it would equal 47%?

MARK SWARTZ: Correct.

BUTCH LAMBERT: Any other questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Swartz?

MARK SWARTZ: No.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve with the revised Exhibit A.

BUTCH LAMBERT: I have a motion. Do I have a second?

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All in favor, signify by saying yes.

(All Board members signify by saying yes, but Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you. We may need to continue twenty-two. Anita got an email from David last night. She has not had a chance to take a look at it, David. Do we need to continue this to look at a number to next month or what? If something that we can dissolve now great. If not--.

DAVID ASBURY: The issue was the sum total of Coal Mountain in Tract 4. Everything else is good. Just the sum total of the percentage of other being disbursed does not equal the total for Coal Mountain in that portion of Tract 4. There was one acre still missing.

MARK SWARTZ: You need to help me out.

(Anita Duty explains to Mark Swartz.)

DAVID ASBURY: In Tract 4.

ANITA DUTY: Do you want us to continue this or do you want us to---?

DAVID ASBURY: It's something that needs to---.

ANITA DUTY: Do you agree (inaudible)?

DAVID ASBURY: I agree with the individual gas owners. Just the sum total of all of those gas owners shown. There's less for Coal Mountain than what you're showing.

MARK SWARTZ: So, you're saying when you add up the oil and gas owners, you don't get 30.4714?

DAVID ASBURY: That's correct. I get 29.7635.

MARK SWARTZ: Okay. We probably need to continue that and look at it.

BUTCH LAMBERT: Okay. Item twenty-two on the docket, a petition from CNX Gas Company, LLC for disbursement of funds from escrow and authorization for direct payment of royalties for a portion of Tracts 1 and 4, unit DD-28, docket number VGOB-01-0918-0921-01 will be continued until March.

MARK SWARTZ: That will work.

BUTCH LAMBERT:

DAVID ASBURY:

BUTCH LAMBERT: Calling item twenty-three on the docket, a petition from CNX Gas Company, LLC for disbursement of funds from escrow and authorization for direct payment of royalties, Tracts 1C, 1E and 1F in unit F-32, docket number VGOB-03-0318-1132-01. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

MARK SWARTZ: Thank you.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, you need to state your name for us again.

A. Anita Duty.

Q. Who do you work for?

A. CNX Land Resources.

Q. And in relation to this petition for a disbursement, what do you do for them?

A. I make sure that the escrow account is properly accounted for in the deposits.

Q. And this is a request based on a split agreement, correct?

A. Yes.

Q. Have you seen it?

A. Yes.

Q. Is it in writing?

A. It is.

Q. And does it provide for a 50/50 split?

A. It does.

Q. And does it pertain to several tracts?

A. 1C, 1E and 1F.

Q. Okay. And after the disbursement contemplated by this application, will all of the fund in regards to 1C, 1E and 1F will be paid out?

A. No.

Q. So, it's a not a partial or---?

A. No, it would be paid out.

Q. Okay. So, with regard to Tracts 1C, 1E and 1F there will be no need to continue in escrow with regard to those three tracts?

A. Correct.

Q. Okay. Have you done an accounting with regard to these disbursements?

A. Yes.

Q. And did you do that as of a date?

A. November 30th, 2009.

Q. To do that accounting, what records did you review?

A. Compared CNX checks that they have sent to the escrow just to make sure they were accounted for and they were.

Q. Okay. And then did you come up with an amount on...a total amount on deposit with regard to...with

regard this unit?

A. \$8,496.89.

Q. Okay. Are there tracts that have been escrowed in addition to 1C, 1E and 1F with regard to this?

A. Yes.

Q. Okay. So, that the overall escrow for FF-32 would continue but the Tract escrow for these three tracts would be completed?

A. Correct.

Q. Okay. Have you set forth on the Exhibit A the percentage that the escrow agent should use to make the disbursements?

A. Yes.

Q. And for 1C, the escrow agent should use the same percentage for both recipients, correct?

A. Yes.

Q. And what percentage would that be?

A. For Swords Creek 35.9278% and the same for (inaudible).

Q. Okay. Now, with regards to 1E, what should Swords Creek receive in terms of a percentage?

A. 1.2765%.

Q. And then the oil and gas claimants should receive what percentages?

A. Jackie Richardson 0.6382% and Phyllis Richardson 0.6382%.

Q. And lastly with regard to Tract 1S...1F, I'm sorry, as in Frank, Swords Creek should receive?

A. 7.7210%.

Q. And the oil and gas owners?

A. For Jackie Richardson and Phyllis Richardson should receive 3.8605% each.

Q. And after the escrow agent makes these disbursements with regard to these three tracts, the owners we just identified, is it your request that the operator be allowed to paid these directly?

A. Yes.

Q. Did you mail to the folks that are subjected to these disbursements to notify them of this hearing?

A. Yes.

Q. And do you have proofs with regard to mailing that you can provide to Mr. Asbury, if you haven't already?

A. Yes.

Q. Do you have W-9s for these folks?

A. I do.

MARK SWARTZ: That's all I have.

BUTCH LAMBERT: Questions from the Board?

BILL HARRIS: Mr. Chairman, just a quick question.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: In the past, and this isn't always the case, we've had copies of the letters of the agreements between generally a coal company or a land company and the owners. Have we stopped? Was that ever a requirement? Let me ask that first. I guess I should be asking---

MARK SWARTZ: I'm not sure that we've ever given those to you.

BILL HARRIS: Oh, I've seen those because I had a question once because it just said a split and I had questioned who got the 75 and who got the 25. I'm not saying that it's a requirement, but I just...I was looking for those and, of course, you know, a couple of items before we had a 100 people, of course, we wouldn't have a 100 letters. But I was just curious to see---

MARK SWARTZ: I will tell you that I can't recall ever submitting, as part of the package. I'm not sure that I can recall that we have---

BILL HARRIS: Yeah. And it may not have been CNX.

ANITA DUTY: I don't specifically...you know, David has asked me for some off the record. (Inaudible).

BILL HARRIS: Okay. I didn't know if that was a

requirement or not. But I guess it's not since no one is saying it was---

MARK SWARTZ: The reason that you're getting kind of a bizarre answer is that they're private agreement. It's just like a lease, you know. If we come in and say we've got a lease, we don't normally give that agreement.

BILL HARRIS: Well, we're approving the distribution based on that agreement though and that's all I was saying.

MARK SWARTZ: And if you need them, we will provide them. Historically, we don't.

BILL HARRIS: Yeah. Okay.

SHARON PIGEON: You're not approving the amount they've agreed to. You're just approving that there is an agreement.

BILL HARRIS: That there is an agreement. But I was just thinking in the past we had seen copies of that agreement.

SHARON PIGEON: I think we have once or twice, but generally not.

BILL HARRIS: But more voluntary than required. Okay. Thank you. Thank you, Mrs. Duty.

BUTCH LAMBERT: Any other questions from the Board. Anything further, Mr. Swartz?

MARK SWARTZ: The only other comment I would add with regard to Mr. Harris, we actually notified these people so they know that we're here today on a 50/50. I'm just saying so they're...we're telling them we're going forward on their agreements. So, in turns of giving notice to somebody who might come and say, oh, no, we had a different agreement, just from a comfort level we're telling these people we're here today and we're here on a 50/50 (inaudible) on the application. Just so you know that.

BILL HARRIS: Okay. Thank you.

MARK SWARTZ: That's all I have.

BUTCH LAMBERT: Okay. Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All in favor, signify by saying yes.

(All Board members signify by saying yes, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank

you, Mr. Swartz. It's approved.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: Mr. Swartz, do you have a couple of more items on the agenda that we can clear up for you and you will be done?

MARK SWARTZ: Yes. Mr. Chairman, we had a force pooling. I think it's number nine, if I'm not mistaken.

BUTCH LAMBERT: We have six and nine. One is a repooling and one is a pooling.

MARK SWARTZ: We continued three through six. So, that's gone. Oh, I'm sorry, we're withdrawing three through six. Nine is continued from last month.

BILL HARRIS: Do you know about it?

BUTCH LAMBERT: No, they haven't yet.

BILL HARRIS: Oh, okay.

BUTCH LAMBERT: We will get to those in just a second---.

MARK SWARTZ: Okay.

BUTCH LAMBERT: ---on three through six.

MARK SWARTZ: Okay. And nineteen. So, nine and nineteen are the only other two that I have today.

BUTCH LAMBERT: Okay. So, I'll call docket item number nine. It's a petition from CNX Gas Company, LLC for pooling of horizontal conventional drilling unit for

horizontal conventional unit I12CV, docket number VGOB-10-0119-2661. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

JIM KAISER: Jim Kaiser, Chesapeake Appalachian, LLC.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

MARK SWARTZ: (Inaudible) and then Mr. Kaiser might have something to say or perhaps not. We were here last month and we created this unit and we obtained a location exception and Chesapeake who is named as a respondent asked for an additional thirty days on the pooling. So, we continued the pooling and that's why we're here today on this docket item and Anita and I are prepared to proceed with that. That having been said, Jim and I...where are we?

JIM KAISER: Chesapeake does not have any problem with CNX going forward with the pooling. We are...they have...the reason we asked for the continuance is because there has not...been a offer made to them for a (inaudible) voluntary agreement. That has been made. It's still being negotiated. If they should come to some sort of voluntary agreement than I assume CNX will dismiss them from any pooling order in the supplemental order.

MARK SWARTZ: Yeah. If we reach an agreement,

obviously, we would make that happen.

BUTCH LAMBERT: Okay. You may proceed, Mr. Swartz.

MARK SWARTZ: Thank you.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, you need to state your name for us again.

A. Anita Duty.

Q. Okay. Who do you work for?

A. CNX Land Resources.

Q. And do we have some exhibits that we need to---?

A. Yes.

(Exhibits are passed out.)

BUTCH LAMBERT: You may proceed, Mr. Swartz.

Q. Anita, with regard to this pooling application, what is it that you do for CNX that would pertain to this?

A. I'm a pooling supervisor.

Q. Okay. And did you either prepare this pooling application and related exhibits or cause them to be prepared under your supervision?

A. I did.

Q. Have you passed out some revised or updated exhibits today?

A. Yes.

Q. Okay. First of all, have you provided the Board with an updated Exhibit C, a well cost estimate?

A. Yes.

Q. And that's dated as of February the 15th, is that right?

A. It is.

Q. Okay. And have you also provided the Board a revised Exhibit E-3?

A. Yes.

Q. And what was the reason for that?

A. We originally showing the coal ownership on the same list.

Q. So, this simply pertains now to the oil and gas?

A. Yes.

Q. Okay. And also I think you've provided the Board with a revised Tract ID?

A. Yes.

Q. And what changed there?

A. The only change we made there is on Tract

2. We revised the CBM lease percentage (inaudible).

Q. It's all for now.

A. Actually it went up.

Q. Okay. From 66.665% to---?

A. 81.25.

Q. Are those the only revised exhibits with regard to the pooling application that we need to talk about today?

A. Yes.

MARK SWARTZ: Okay. When we were last here in January, I think you testified that you had mailed and published and I would incorporate that testimony, Mr. Chairman. She testified in January that she had mailed and published with regard to the original application. That was continued. So, I think we've touched that base for today.

Q. You haven't mailed since then?

A. No.

Q. Okay. With regard to this unit, what is the cost estimate with regard to the well that is proposed that we discussed last month when we were talking about the well location exception?

A. \$1,857,950.14.

Q. And compared to the cost estimate that you've originally provided, it looks to me like that is

slightly less?

A. Yes.

Q. Okay. With regard to the people...the percentage of this unit that you've acquired and what you're proposing to pool, what is the percent of interest that you've acquired in this proposed...in this unit and what is it that you're seeking to pool?

A. We've acquired 82.9469% in the oil and gas interest and we're seeking to pool 17.0531%.

Q. And is it your opinion that if you combine a pooling order with the lease agreements and acquisition agreements that you've entered to, that the correlative rights of all owners and claimants will be protected?

A. Yes.

Q. And is it your opinion that drilling the well that we discussed at the last hearing in some detail is a reasonable way to develop the gas within this unit?

A. Yes.

Q. Who is the applicant for the pooling?

A. CNX Gas Company.

Q. And who would be the proposed operator?

A. CNX Gas.

Q. And is CNX Gas Company authorized to do business in the Commonwealth?

A. Yes.

Q. Is it a limited liability company formed and ran?

A. Yes.

Q. Is it registered with the DMME?

A. Yes.

Q. Does it have a blanket...a required bond on file?

A. It does.

Q. And the number of acres and the shape of this unit are depicted in the maps that was submitted with the unit, correct?

A. Yes.

Q. And it's...overall it's a 320 acre unit?

A. It is.

Q. And that unit is built from, I think, Oakwood unit, is that correct?

A. Yes.

Q. And you're talking about one well here?

A. Yes.

Q. And we've already (inaudible)?

A. Yes.

Q. With regard to the standard lease terms, what would those be?

A. Five dollars per acre per year with a five year paid up term and a one-eighth royalty.

Q. And would you recommend those standard lease terms and terms to be incorporated in any order with regard to folks who might be deemed to be leased?

A. Yes.

MARK SWARTZ: Mr. Chairman, I think that's all I have on the pooling.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Mrs. Duty, Exhibit A that we have, page two. Are those percentages the percentage that you gave us earlier for the gas and oil owners?

ANITA DUTY: No.

BUTCH LAMBERT: Okay. Will you provide us a new exhibit?

ANITA DUTY: I will.

SHARON PIGEON: Would you restate those again for the record?

ANITA DUTY: We have leased 82.9469% of the oil and gas interest and we're seeking to pool 17.0531%.

MARY QUILLEN: Would you repeat that amount that has been leased?

ANITA DUTY: 82.9469%.

BUTCH LAMBERT: Any further questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Swartz.

MARK SWARTZ: That's it.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve with the revised exhibit.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All in favor, signify by saying yes.

(All Board members signify by saying yes, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT:

BUTCH LAMBERT: The next item that we're going to call is item nineteen on the docket. It's a petition from

CNX Gas Company, LLC for disbursement...oh, I'm sorry, for establishment of a provisional drilling unit G43SH for drilling of horizontal unit...horizontal conventional gas wells, docket number VGOB-10-0216-2676. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz, Anita Duty and Les Arrington.

(Leslie K. Arrington is duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Swartz.

MARK SWARTZ: Thank you. Anita, has got a couple of exhibits here. Mr. Chairman, if I could, while Michelle is passing that out, I'd like to incorporate Anita's testimony from the prior hearing with regard to the applicant and operator, her employment and standard lease terms.

BUTCH LAMBERT: Accepted.

MARK SWARTZ: Thank you.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, you need to state your name for us again, please.

A. Anita Duty.

Q. The applicant here is what company?

A. CNX Gas Company.

Q. And you work for them?

A. (No audible response.)

Q. Correct?

A. Yes.

Q. Okay. And we're here today on this application simply to establish a drilling unit, is that correct?

A. Yes.

Q. What did you do to advise people that we would be having a hearing today?

A. It was mailed by certified mail, return receipt requested on January 15, 2010 and published in the Bluefield Daily Telegraph on January the 21st.

Q. Okay. And have you provided Mr. Asbury with copies of your certificates with regard to mailing and your proof of publication?

A. Yes.

Q. And when you published in the paper with the notice and the map that shows the four Oakwood units, is that what appeared in the paper?

A. Yes.

Q. Is...the horizontal share a unit, right?

A. Yes.

Q. And you've provided with the number that you plan to use for this unit, which is what?

A. G43SH.

Q. Okay. And what county is this located in?

A. Buchanan.

Q. And the unit that you're seeking to create is shown on Exhibit A-1 as a combination of four Oakwoods, right?

A. Yes.

Q. And it's also shown again on the plat?

A. Yes.

Q. Have you provided the Board with any revised exhibits today?

A. A revised Exhibit B and a revised Exhibit C.

Q. Okay. The revised Exhibit B appears shorter. Why is that?

A. He removed the coal ownership.

Q. Okay. And the revised Exhibit C is the well cost estimate exhibit, correct?

A. Yes.

Q. And is it more or less than the exhibit that accompanies the original file?

A. Less.

Q. Okay. And what is your well cost estimate in the revised exhibit?

A. \$1,863,340.14.

Q. And that's for the well that's depicted at an underground basis on the well plat, correct?

A. Yes.

MARK SWARTZ: Okay. I've got some questions for Les.

BUTCH LAMBERT: You may proceed.

MARK SWARTZ: Thank you.

LESLIE K. ARRINGTON

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. You need to state your name us?

A. Leslie K. Arrington.

Q. Who do you work for?

A. Consol Energy.

Q. And what's your current job?

A. I'm the Director of Environmental and Permitting. I take care of compliance issues.

Q. Okay. And before that were you my star witness for twenty years?

A. Yes.

Q. Okay. Are you familiar with this well and wells like this well?

A. Yes.

Q. Have you done an engineering analysis personally for these kinds of wells both in Virginia and in West Virginia?

A. Yes. And in Pennsylvania.

Q. And Pennsylvania. And have you prepared a packet of information with regard to this proposed unit for the Board today?

A. Yes, I have.

Q. Okay. Would you pass that out? Maybe Anita will help us.

(Exhibits are passed out.)

MARK SWARTZ: Just for purposes of bringing you up to speed, I'd remind the Board when we were here last month, I'm pretty Jeremy Hayhurst was here and testified with regard to the other unit. This is going to look pretty familiar. It's a similar well hole, you know, the data. But I do need to cover this with Les.

Q. Les, if you would, I would just have you...

ask you to sort of walk through the sheets here. I don't want you to spend a lot of time on some of the maps, but if you'll go through this with the Board in terms of the concept and the mapping and ultimately the projections with regard to this well.

A. If you'll go to the second page. It's essentially it's overlaying on the Oakwood 80 acre grid unit. It's units F-41, F-42, D-41 and 42. That's kind of the physical location. The next sheet is the plat. It's simply showing where the well location is at. It's close to the outside of the unit. The entire 2700 feet is within the proposed drilling unit.

Q. Okay. Let's stay with that for a second. There is a...this is an offset or a drilling window depicted on this well plat, correct?

A. There is.

Q. What's the offset?

A. It should be 300 feet.

Q. Okay. And then there's a dot just inside of the drilling window. Do you see that?

A. Yes. That should be the landing point.

Q. Okay. And is it your intent that production will occur within...from within the window and not from the offset?

A. That is correct.

Q. So, it will be cased to ensure that that happens?

A. It should be.

Q. Okay. Go ahead.

A. The next slide that you see is basically the horizontal well shown landing in the formations. The intent of the well is to cross more fractures (inaudible). Next, is the typical horizontal well divide. You essentially have your casing diagram showing that your casing...your 7" casing down through the coal seams. It shows the Lower Huron Shale. We will land in it at about 6,000...the elevation of 6,036 and drill out with a 6 1/4" bit.

Q. Is this...is there an intention to frac this within the Huron Shale as well?

A. Yes, it is.

Q. So, hopefully, you'll (inaudible) from a frac job as well as the distant frac?

A. Yes, we will.

Q. Go ahead.

A. Then the next is reason for the proposed unit, which you're going to get more production than you would from vertical wells that you're destroying. You're

just disturbing much less surface area. The next one is just the benefits of the drilling horizontally. Again, the same thing. Hopefully, you're getting a maximum depletion of the reservoirs and less waste. And then our recoverable reserves will be .31 bcf.

Q. And, basically, you're showing...I know you work with Jeremy all the time. But you're showing essentially the curve here, the distribution of production?

A. It is.

Q. And do you have...does CNX have wells...horizontal wells in other states that you've producing?

A. We do.

Q. Okay. So, you've got some...so, you've got some of your own data?

A. Yes.

Q. And you've got data available to you in West Virginia and Virginia?

A. We do.

Q. Les, is it your opinion that it makes economic...good economic sense to develop the Huron by a horizontal drilling?

A. We believe it will be.

Q. And you believe that this well should, in fact, produce within the ranges that you're estimating on

the last page?

A. Yes.

MARK SWARTZ: I don't...I guess, we...we're not here on a location exception. So, we don't have to deal with that specifically. That's all I have of Mr. Arrington.

BUTCH LAMBERT: Exhibit AA, Mr. Swartz?

MARK SWARTZ: That would be great.

BUTCH LAMBERT: Any questions from the Board?

BILL HARRIS: Mr. Chairman, one---.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: ---just real quick question. On your handout the reserves estimate---

LESLIE K. ARRINGTON: Yes.

BILL HARRIS: ---what is the scale...I mean, what is the units for the baseline of that?

LESLIE K. ARRINGTON: That's actually mcf.

BILL HARRIS: Is it---

LESLIE K. ARRINGTON: The first number is point...it would be .8 bcf.

BILL HARRIS: So that...okay. Okay, thank you. Thank you.

BUTCH LAMBERT: Any other questions?

BRUCE PRATHER: I have a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: I noticed down here that your recoverable reserves are 20% or 30% of the total gas in place. Is that customary? Wouldn't...wouldn't...I mean, at the end of the three billion feet of gas, is a normal recovery 20% and 30% of these reserves. Is that all you're getting?

LESLIE K. ARRINGTON: I would assume so. That would be a question that we need to ask Jeremy.

BRUCE PRATHER: Okay. I mean, I can look at your curve. This is the gas in place. When your recovery factor is that low---

LESLIE K. ARRINGTON: I understand.

BRUCE PRATHER: Okay.

LESLIE K. ARRINGTON: Any other questions?

DAVID ASBURY: One question, Mr. Chairman.

BUTCH LAMBERT: Mr. Asbury.

DAVID ASBURY: On the plot, the horizontal leg is showing 2700 feet. Is that what is anticipated?

LESLIE K. ARRINGTON: Yes.

MARK SWARTZ: To come back to Mr. Prather's question, if I might. We're talking about the reserves under the entire unit. And there's a possibility...is there a not a possibility that we could put another leg in this unit and get more of the reserves at some point in the

future?

LESLIE K. ARRINGTON: Just like any field rules,
yes.

BRUCE PRATHER: Yeah.

MARK SWARTZ: Right. I just wanted to
address...you know, you're asking him a good---

BRUCE PRATHER: Yeah.

MARK SWARTZ: ---question in terms of...but the
reserve estimate is for a larger area than this well might
actually produce from. It will get it from there, but in
terms (inaudible)?

LESLIE K. ARRINGTON: It will.

BRUCE PRATHER: And it would take a variance from
the Board to do that?

MARK SWARTZ: We'd have to come back, yes.

BRUCE PRATHER: Yeah. Yeah. Okay.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: I have a question also. The exhibits
that were handed out, Exhibit B. Just a clarification on
one of the columns that's there. The one that's in green on
our handout. It says one-eighth percent of unit.

ANITA DUTY: You shouldn't have seen that.

BILL HARRIS: Was I not supposed to mention it?

ANITA DUTY: No, you should have seen that. That's

for royalty purposes.

BILL HARRIS: Oh, I just wondered what that meant.

ANITA DUTY: That's (inaudible) rate. That's not something that you normally---

MARK SWARTZ: Yeah, if you take an eighth of the percent of unit---

BILL HARRIS: Well---

ANITA DUTY: When you add this up it comes back to twelve and a half.

BILL HARRIS: Now, that's an eighth? That number is an eighth of the number immediately to the left?

ANITA DUTY: Yes. If you convert the percentage it will come back as 12....125 is what...is what that will add up to twelve and a half.

BILL HARRIS: Okay. Okay, yes.

ANITA DUTY: That's not something---

BILL HARRIS: I won't argue about the numbers. But, okay, yes. Okay. Yeah, I see the intent there that that's the one-eighth. Okay. Thank you.

BUTCH LAMBERT: Any further questions?

MARY QUILLEN: Mr. Chairman, do we need a revised Exhibit B to clean this up?

BUTCH LAMBERT: Yes.

MARK SWARTZ: Anita is nodding her head in the

affirmative. So, I guess she---

ANITA DUTY: Yes, I will send one.

BUTCH LAMBERT: Anything further, Mr. Swartz?

MARK SWARTZ: No.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve with the revised Exhibit B.

BILL HARRIS AND BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify in the affirmative, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, say no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: Yeah, we're going to jump back to the beginning of our agenda of the docket items. Okay, we're going to go back to item number two on our docket. The Board will consider amendments/recommendations for the

standardized clear-language royalty payment statement for parties being escrowed by the Board. Mr. Grantham.

(Exhibits are passed out.)

BUTCH LAMBERT: Good morning, gentlemen. Thank you for coming before us this morning to continue our discussion on clearing up some language for royalty payments. We certainly appreciate the effort that you all taken to put into this. Mr. Grantham, I guess, are you going to speak?

JERRY GRANTHAM: Well, I'll speak initially just sort to refresh everybody's memory. I addressed this issue, I believe, in the December docket.

BUTCH LAMBERT: That's right.

JERRY GRANTHAM: We worked closely with Mr. Asbury's office developing a statement for a list of items that we felt were inappropriate to do on a force pooled royalty payment statement. Those items, I think, that we passed out included production date, the production which would be what product it was and how much volume, a price, the interest that was being paid of a volume, actually volume of the product, revenue from that, taxes, deductions and net value or net revenue at the end of the statement. We spent quite a bit of time on this trying to develop a statement that we felt like would provide the items to the owners so that they could clearly understand what was being

paid, how it was being paid and what the ultimate at the end of the day, how their net value or net royalty was determined. I can say that the industry as a whole that I've seen, because I sort of was the keeper of looking at different people's different statements and I think the industry as a whole has made a huge effort and moved forward to provide statements not only from a force pooling standpoint but from a general royalty payment standpoint and working interest for that matter that are much clearer than they were in the past. I know that there have been complaints over that. I'll be honest with you, I've seen statements in other parts of the country that, you know, I would have to spend some time to really understand. So, I think this is really an important...I think it's...you know, the industry has taken the initiative to try and develop statements not just as it relates to force pooling, which is very important, but on all royalty payments that pretty much adopts the same...the same standard. I think that is important. I think the other thing that could be done and we've had some discussion about this and furthering education is doing workshops or maybe even town hall type of meetings where we sit down and go through here is how you read a royalty statement because it is complicated. I think spending, you know, a half an hour or an hour with

individuals on that would be very helpful to everybody. Where ever we sort of got to on...in December was the question over the deductions. The way that we envisioned the statement was that deductions and we defined what those were and those were consistent with what was I believe approved in a Board hearing back in the early '90s. We defined what those were. I think, the question came back to then can those be broken out individually on the statement. My response, if I recall it correctly, was that that's not typically done. It done on an existing royalty payment statements that are not force pooled and then I was asked the question, is it done on the working interest side? My answer was, no, it was not done on the working interest side, at least not as it relates to my company. When I receive a statement from a company that I'm doing business with. I don't get a statement that breaks all of those items out either. We then continued the...said we would continue the discussion until February where I could go back and sort of pool the different members of the industry or the different companies in our industry as to could this be done if, if so, how would we do it? That's where we are today. I have some people here with from Equitable, Appalachian Energy and CNX Gas that I think would like to talk about this. I believe that a deduct section that once

all of these items together is the appropriate way to do it and the way that it's generally done in the industry outside of the force pooling. And trying to break all of these items out, I think, is going to be very difficult if not...I won't say impossible, but it will be difficult from an accounting standpoint. But we have experts here today that I think can address that a lot more fluently than I can. Mark, do you want to start or would you rather---

MARK SWARTZ: I'd rather (inaudible).

KEVIN WEST: I'm Kevin West. I'm Managing Director of External Affairs for EQT. It's good to see everyone again this morning. With me this morning is Rick Wright, who is our EQT director of accounting. Our statements that we use not only for the force pooling here in Virginia or any royalty owner across four state operating areas, we think are fairly comprehensive and that they...as constituted they include all of the items that were addressed and wanted to be addressed. It was discussed at the December meeting. With regard to the deductions that's where the difficulty arises. We do not currently break those numbers down. (Inaudible). Rick Wright, who is our Director of Accounting is here today to sort of explain why that will be difficult. He also can explain that if you look at how those various components, the gathering and the compression, the cost of

transportation, if you look at those over a historical period of time, they're proportions of the total amount of deductions are fairly consistent. He's prepared to speak to that this morning. So, that royalty owners will know that when they see that deduction item on their remits what their proportions generally are and you can generally apply that proportion and know what the various components are. I guess, I'll turn it over to you, Rick.

RICK WRIGHT: I'm Rick Wright. I'm Director of Accounting for EQT Production. What Kevin is going to pass out now are the components of the (inaudible).

(Exhibits are passed out.)

RICK WRIGHT: EQT currently operates and Appalachian approximately thirteen or fourteen thousand wells. We write about six to seven thousand checks a month both working interest and royalty interest. As Jerry and Kevin eluded to, the remittance statements that go out to the working interest and the royalty owners are the same. The software package doesn't differentiate between types of unknowns and working interest or royalty interest. It's packaged it. You produce a statement in one way. The paper that I just...Tim just passed out shows the breakdown of the deductions between pipeline expenses and compression expenses. This is basically a...I guess it's a manual look

at four quarters. You can see that the percent of the total deductions for pipeline as for compression are consistent. They change a little bit as we put in one (inaudible). Some operating expenses go up. Some property taxes go up and some things like that. So, this is a...I guess a ten month period. That's a twelve month period. It's four quarters. This is produced by our Mid-Stream group. That accounting group does the data collection for all of the expenses and calculates the rates for us. So, currently at this time, we...we're not able to break these pieces out. They give us a rate and we put in the rate and rate is going to apply to the volumes on each well.

MARY QUILLEN: Royalty interest and this is across the Board?

RICK WRIGHT: Yes.

MARY QUILLEN: Okay. So---.

RICK WRIGHT: This is...this is for Virginia.

MARY QUILLEN: Right, right, right. Uh-huh. And who would your...whoever your royalty people are whether they're working or whether they are pooled or whatever, would they get this printout.

RICK WRIGHT: They would not. If they wrote us a letter and asked for it or called us and asked for it, we would certainly give it to them.

MARY QUILLEN: Well, this seems to include...I mean, all of the items that we had, I guess, discussed.

KEVIN WEST: I think the difficulty is in actually putting it on the check or run it the program. Certainly, if anyone requested it, we could provide it.

MARY QUILLEN: Right. Right. Just an annual report...as part of an annual report---

KEVIN WEST: Certainly, yes.

MARY QUILLEN: ---that you would get just like any other interest.

KEVIN WEST: Right.

MARY QUILLEN: Like you have stockholders and they get annual report and this might be just part of that annual report. Is that something that---

KEVIN WEST: Yeah, that's something I think that we would certainly...I think an easy to do it would be you would be certainly able to and willing to post it on some sort of internet site whether it be ours or the Board's internet site. The difficulty in mailing them out would be that it's difficult to differentiate...we operate in four states, Virginia, Kentucky, West Virginia and Pennsylvania. It's difficult to differentiate who would get---

MARY QUILLEN: Who would---

KEVIN WEST: Yes, ma'am. But we certainly would be

glad to post it on line.

BRUCE PRATHER: Could you arrange this to be put together with your 1099s and your W-9s, at that point in time, since you're already going to be looking at the data for the tax information anyway?

RICK WRIGHT: Right. I think that, you know, the problem for us in that respect is that these...the approach that we're talking about here, the force pooled folks, they don't in our system...they're not...they don't appear any different than anybody else. They're an (inaudible) well. So, we would need to figure out who those people are (inaudible). It would just be an exercise outside of, you know, the ten to twelve thousand people that we write checks for companywide.

BRUCE PRATHER: I was just thinking if it could be done simultaneous at the same time you prepared their tax in the 1099s or the W-9 or whatever it is. But, you know, that might be the time to do it because you would be looking at the information that way to get their...to make up their tax returns.

RICK WRIGHT: Right. I think that's fair. We have to figure out how to find out who those people are---.

BRUCE PRATHER: Yeah.

RICK WRIGHT: ---out of a big population.

KATIE DYE: What about your marketing fees? Where do they come in---?

RICK WRIGHT: Marketing?

KATIE DYE: Yes.

RICK WRIGHT: There is no marketing fee. There is no marketing fee.

KATIE DYE: For any of the companies.

KEVIN WEST: There's not...not for EQT.

KATIE DYE: Okay. I've heard marketing fees somewhere before from somebody.

RICK WRIGHT: No, we don't...there's not one for us.

KATIE DYE: What about CNX and Appalachian?

FRANK HENDERSON: We don't have any marketing fees in our current market of gas. That's not to say that there may not be in the future in our sum of gas. There may be fees that are post (inaudible) that are going to affect the price of the gas.

JERRY GRANTHAM: The marketing fees that I see from a working interest standpoint, there, again, I'm talking about from the standpoint from my company participating on other operator's wells are usually very quite small, less than five cents is what I'm seen, two to five cents. It's a pretty small number compared---

KATIE DYE: So, you still could have another deduction outside of what you have listed here.

JERRY GRANTHAM: Yes, that's right. Based on the original items that were listed in the docket in...Sharon, help me, '93 or '92 or whenever it was.

SHARON PIGEON: I was not here then, Jerry.

JERRY GRANTHAM: Excuse me?

SHARON PIGEON: I was not here then. So, I'm not going to---.

JERRY GRANTHAM: Okay. I believe we tried to replicate the exact items that were listed in that specific that was approved by the Board and they included these items. It doesn't necessarily mean people are charging all of those, gathering, processing, compression, transportation and marketing.

KATIE DYE: What about CNX, Mr. Swartz

MARK SWARTZ: Well, I have seen calculations that include marketing fees. The problem with CNX is and we spent a lot of time with you at Bonanza a couple of years ago, if you look at all of CNX's costs including a pretty minimal marketing costs. They substantially exceed what we charge. So, I mean, it may be in the basket, but if our costs exceed regularly \$2.00 and we're charging a maximum of a \$1.35, I mean, that's a problem that eventually that I

want to talk about because our charges wouldn't look at this. The numbers are larger I think in part driven back the fact that we have more CBM and less conventional production. But our numbers are larger in a per unit basis, but we have historically not charged what we have spent. So, I mean, if we were actually going to do the kind of accounting to include all of our costs, I costs would go up substantially in terms of what we feel (inaudible). But there's a marketing cost that we incur that goes into our overall calculations of costs.

KATIE DYE: If your overall calculation is like \$2.00 and you're only charging a \$1.35, do you take the additional .65 as a tax write off...as a tax deduction I should say?

MARK SWARTZ: If you're running a business and you buy electricity you deduct electricity. If you pay somebody to sell your gas, you deduct what you paid them. If you buy land, you deduct that. If you buy...I mean, it's not a tax deduction. It's an expense of doing business.

KATIE DYE: Okay. But---

MARK SWARTZ: And what we have chosen to do is not pass along a 100% of the expenses that we incur to market the gas.

KATIE DYE: I understand. I'm just trying to

understand the process. So, the additional \$.65 would be business expense---.

MARK SWARTZ: Oh, it more than that. I don't want you to think it's \$2.00. It's more than \$2.00.

KATIE DYE: Okay. I was just using your figure.

MARK SWARTZ: It is more than \$2.00.

KATIE DYE: So, any additional beyond the \$1.35 would be looked at by CNX as a tax expense or a business expense, I guess you would say.

MARK SWARTZ: No, it would be just like the chart that you've been given, you know, the depreciated expense, operating and maintenance expense, (inaudible) and property taxes. Those are expenses. Those are your financial accounting expenses or they're actual checks that you wrote to them. So, sure. I mean, if we pay for stuff...it's not a deduction. It comes off of our gross revenue as an expense. I mean---.

KATIE DYE: Thank you. I was just trying to understand.

BUTCH LAMBERT: So, Mr. Swartz, I think what I heard you say was that you're not comfortable with what was passed out? I mean, you're operating or deductions would be different than this?

MARK SWARTZ: Right. Let me just...why don't---.

BUTCH LAMBERT: I understand what we're trying to do here is to get something that is across the Board that will explain the systems.

MARK SWARTZ: My client has recently revisited their check details and has updated the format. They are...this will sort of put it in context of Mr. Grantham is not talking about. We, obviously, are going to tell our royalty owners what their interest is. So, we're report on their check statement their decimal interest. This is your interest in the unit. We're going to report to them on a periodic basis what the price was that we've achieved for the gas. We're going to give them a gross volume and a number volume. We're going to give them gross revenue and the (inaudible). We're going to give them a tax number. The same situation. What were the taxes for that revenue period? And then we're going to give them a deduction figure. A lump sum developing figure for the period. So, they're basically going to get volume, revenue and taxes and costs taken off of that to get the amount (inaudible). The problem that you have...I think that EQT exhibit illustrates this, if you're keeping track of costs, your costs in terms of what you spend per month, that number is going to change a little bit and this exhibit shows that the number changes a little bit. Over time, generally, it tends to go up, but

the changes are not tremendous. So, your monthly or whatever period you're looking at, the dollars you spend it not going to be the same for every period. So, if you're looking at twelve months, it's going to be different. If you're looking at quarters, it's going to be different. The other variable that has a...can have a fairly traumatic effect on your costs at any given period of time is the amount of gas that you're selling. Equitable appears to me be reporting this as best dollars per decatherm. Some companies might keeping track of it as dollars per volume as opposed to (inaudible) value. But if you're selling less gas in the summer and some of your costs are fixed and don't fluxate depending on how much gas you're selling just the volume of gas can have a fairly traumatic impact. So, if your goal was to recover costs on a monthly basis or report costs on a monthly basis, you would have...my guess is having done this in the litigation in the past, you would have a pretty substantial roller coaster effect during the course of the year. I mean, if you're producing and selling 30 million in the summer and 60 million in December and half of your costs are fixed, you're going to have a huge cost figure in the summer. I think you need to be sensitive when we're looking at cost reporting and cost accounting that most companies look at this on through put basis. So,

they're saying, what does it cost us on a...either on a heating volume or a volume to accomplish this goal? Most companies probably look at it over a lump of period of time within a month to sort of smooth out the fluxation. So, an issue that you're addressing that causes...that makes the good questions that you're asking difficult to answer sometimes is most companies...it would shock me if companies actually tried to do deductions on a current basis without some (inaudible) basis because you're just going to get such variability. So, you're asking a question that think there's one answer to. Well, the answer...there is not one answer. There will be a different answer every day of every month. So, that's a problem. Another problem that my client has is if we charge less than we spent, if we were going to report costs we're required to report costs on an actual basis, how would do that? You know, if we're spending 250 and we're billing 135, how do we do that? We don't keep those records. We've made a decision that people on orders that's the maximum that we're going to charge them and we've been charging that for a long time and it is less than what ask for here. I don't know how we would account for that. We do not do...CNX does not do a year-end summary royalty statement, which is something that we've talked about. You know, one of the things that we have talked

about in the past when we've looked at revising (inaudible), and something that I would just bring up to you is at times the Board has been interested in what is it going to cost the companies to comply with a proposed regulations? So, what's the economic impact on the industry. I mean, how much is it going to cost to be reprogram your software? How much is it going to cost in mailings? How much is it going to cost...? Currently, CNX does not do that kind of reporting on annual basis. Now, let's come back to why would people want to know that. A royalty owner will get monthly statements with their checks so they'll know what they're...what the gross revenue was and what the net was. They will get a 1099 at the end of the year because the royalty owner is not a partner. So, the 1099 that a royalty owner gets is the net number that's income. I mean, there is no need for a royalty owner to have cost information because it's already been accounted for when they got their checks. So, I mean, they're...the 1099 that a royalty owner gets regardless of what cost information they might be provided with is the number they have to put on 1040. You know, there's no opportunity for a royalty owner to say, well, I received X, but I want to deduct Y. That's not how it works. If you're working interest owner, which is the other 87 and $\frac{1}{2}\%$, then you've got, you know, some

disbursement issues that are going to be different in costs maybe pertinent to that. But from a royalty owner's standpoint, royalty owner who gets a 1099 has 100% of what they need to file a tax return. Coming back to...just to try to finish in terms of my notes. I think that from a one size fits all solution that are some minimum things that would restrict operators (inaudible) in terms of information of royalty. I think that's volumes, pricing, taxes and overall deduction numbers. I think everybody does that on some basis. Maybe not the same basis, but I think everybody's royalty check stub would enable a royalty owner to look at it and say this was the gross revenue. Here is what was deducted. Here is the net revenue number. I can work down to the number that I need. So, that...you know, that's a reasonable requirement. I think everybody does that on some basis. I think everybody's accounting system allows them to do that. So, volume, revenue, taxes, deductions and net revenue that Jerry talked about (inaudible). In terms of annual reporting, I know CNX doesn't do it. I haven't heard that anybody else. So, there would be a cost associated with that. A better question is if they need their 1099 and that does the trick, why should you spend money to give them more information than you've given them over the twelve months of the year

because they're not going to give them to the IRS. The IRS doesn't care. They're looking for the 1099. I talked briefly about the economic impact of some of these. The requirements in terms of costs of the company, programing and so forth. The other issue that we really need to reflect on is the period of the cost accounting. If you do it on an annual basis, (inaudible) annual dollars you're going to get one number. If you try to do it on a monthly basis or a quarterly basis you're going to get other numbers. They're going to vary. It's going to be tricky. My guess is that most of the companies probably do this over a larger period than a month (inaudible). That would be the collection of my comments. So, I think in summary, yes, royalty owners should receive monthly information that they can decipher. Providing monthly information in coruscating detail would be very expensive and I question is there any good in providing it?

BUTCH LAMBERT: I appreciate the lecture. But I think we're way above of what we originally set out to do with this task. We heard before the Board several royalty owners come before this Board and said they just don't understand what they get. I don't know if we're asking for pricing and all the other information you just talked about. I think they're just trying to understand their checks.

That was the task that we charged Mr. Asbury and VOGA to work on is just what can we come up with to help these folks understand what's on their check? I don't know if they were asking for additional information, but just help us understand what we're getting. I don't know if we hit that mark. I think we've missed it here.

JERRY GRANTHAM: See, I respectively, I guess, disagree a little bit. I think we have met that mark because I think what we have done again is to somewhat mostly on a volunteer basis because we're not only doing this on the force pooling side we're doing this in all royalty payments.

BUTCH LAMBERT: I know you've gone above and beyond. We appreciate it. VOGA appreciate...this Board appreciates VOGA with the work you've done. And all of these items when I reviewed everybody's statements going out to all royalty or working interest parties, you know, what I saw was that these items were all on there. I think Mr. Swartz brings up some good points about that I hadn't thought about to be quite honest with you. He talked trying to do an average at the end of the year. The average may not reflect the monthly the quarterly numbers because of different amount of volume that are going through each system. But at the end of the day, I think just from some

of the industries standpoint an annual number probably we could come up. Another concern is we put all of these deducts on there as line items, which sounds like it is going to be very difficulty to do from an accounting standpoint...the systems and an accounting standpoint because then the numbers are different representing on a monthly basis and it isn't always being done on a monthly basis. It's going to make a statement in theory even if it could be done, it's going to be this figure and in some ways may confuse the issue. Here you have six...five more things that are potentially on the statement now as opposed to doing one item that is the deducts. So, with that, I guess, I don't think Frank has an opportunity to express Appalachian's view.

FRANK HENDERSON: From our standpoint...I'm Frank Henderson, Appalachian Energy, the first statement that we're using is a fairly simple statement, which does provide all of the that Jerry listed, which hopefully will give each royalty owner including the force pooling folks the information to understand the statement. Our company would want (inaudible) understand the statement and has a question to call our office. We'd be happy to sit down and explain that to them. As far as doing a breakdown of the deductions on a monthly basis, our accounting software won't

accommodate that. We would have to totally scrap that software. We'd have to come up with some other system to do that. As far as any annual breakdown of what the deductions would be, as Jerry mentioned, I think we could do that as a (inaudible) of what your deductions are (inaudible). Of course, each month is a moving target. Your costs and your volumes may or may not change. So, there's...to do it a monthly basis would nearly...well, it would be flat out impossible for our company to respond. (Inaudible). We would be able to try to accommodate somehow insert to the 1099 or whatever we do for the final cost breakdown of deductions. I guess, that's about all I've got.

JERRY GRANTHAM: So, it may be possible a percentage breakdown (inaudible).

BUTCH LAMBERT: And we would be happy to post that our DGO website along with the other information we received from the company. It would be no problem. Mr. Grantham, I heard you say that you would be willing to do some more town hall outreach. As far as explaining deductions, I know that we...as far as DMME, we're still planning to go forward to continue the next series of public outreach. Maybe we can work this in as a section of that, which could be helpful. I also would like to hear from the citizens again to see what their concerns are. Maybe I don't understand what

they're asking for, but somehow we'll try to schedule that and have those citizens come back that were having a problem reading those statements and getting additional information from those folks as well.

DAVID ASBURY: Mr. Chairman.

BUTCH LAMBERT: Mr. Asbury.

DAVID ASBURY: Just a comment, please. As we've studied all of the different royalty statements from those companies who make payments into escrow, I think the statement formats are adequate. The issue with our citizens boils down to an understanding of two items: One is the decimal interest and a lack of an understanding of what the individual ownership interests are and two, knowledge of their acreage proportionate share of the gas unit with an understanding of how that decimal interest production is derived. From the citizens that I've talked with concerning this issue, the decimal ownership is one that leads to misunderstandings. The understanding of the gas owners proportionate share of the production royalty and the deductions, are many times not easy to follow. Like you've presented, I believe a statement presented on an annual basis accompanying the 1099 form that will give gas owners an indication of what the deductions are and should give them adequate information to look at their monthly paychecks

and determine the accuracy of payment. Someone with royalty interest or working knowledge of the industry should understand the statement format with that type of input. For those individuals familiar with the business and a working interest partner, they certainly should understand how the business operates and the statement format that is presented.

BUTCH LAMBERT: Okay.

JERRY GRANTHAM: And VOGA would be more than happy to participate in future town hall meetings or seminars to address those types of issues. We sort of did that a little bit on the first town halls. Not about specifically how you read a statement but certainly do you calculate your interest in a unit. I know that is confusing. We could certainly do one that addresses that issue and talks about a statement here...the statements that you have and here is how you look at a statement and read it, here is what your interest is from that statement and here is the log of the gas that was produced and go through all of that the individual. I'd be more than happy to be involved in that.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: Let me just make a comment. I appreciate the information that you all have brought to the Board. I guess this relates to what Mr. Asbury said about

talking to citizens. Usually, I hear two questions from them. One is what was deducted in terms of not only the dollar amount, but the line items or items and then why it was deducted. Then, of course, we've wrestled with the why for a lot and that probably is an ongoing discussion. But those two things, what and why, I think, if that were answered I think they would feel...the citizens would feel a little more comfortable. The other thing is that I'm a little puzzled about...you all spoke about software not being able to calculate individual amounts or maybe produce that on a check stub. I'm not sure...I may have misheard that. But if each month you're making deductions to their royalties, that has to be calculated some kind of way and applied to each person. I think what I hear that the folks are asking or maybe we're asking for that calculation. I mean, if those amounts are determined because they obviously are built into the deductions, why not have those items available listed some place? I guess that's what we're talking about. But the software doesn't allow you to list those or doesn't allow you to...I mean, obviously it allows you to calculate it because otherwise it wouldn't be a deduction that's listed there.

RICK WRIGHT: I believe it is a very separate software---.

BILL HARRIS: That prints the check stub and the amount?

RICK WRIGHT: ---that prints the check.

BILL HARRIS: Okay.

BRUCE PRATHER: Yeah.

BILL HARRIS: Okay. So, if that's not tied into the accounting that's...so, yeah, okay.

FRANK HENDERSON: Our company, our software has one item per deductions.

BILL HARRIS: Do you mean one line for deductions?

FRANK HENDERSON: One line for deductions.

BILL HARRIS: So, it's---?

FRANK HENDERSON: We've asked the people that generated the software if they could modify that or expand it and they can't. So, we would have to get a whole new totally different software system (inaudible). That's our particular problem or dilemma

MARY QUILLEN: So, the two programs don't interface and you take the information from one and it's fed in as a total?

RICK WRIGHT: That's correct. That's how ours works. It comes up with a rate per volume---.

MARY QUILLEN: Much...yeah, many software programs will---.

RICK WRIGHT: ---and it's calculated over a year, which is all of these details that is put into the software that actually processes when you run the revenue distributions and you create the checks.

BUTCH LAMBERT: Okay.

KATIE DYE: I have a comment. Just as a thought. What I'm wondering on behalf of the Board is where are we on legal ground here? If I come in as a royalty owner and say to the Board, you know, under the police powers of the State of Virginia, you know, you forced pooled my interest and I want to know what my transportation charges were and what my compression charges were and what the gathering charges were and I want a breakdown on that. I'm I not legally entitled to that?

SHARON PIGEON: No.

KATIE DYE: Why not? That's I need to know.

SHARON PIGEON: If you want that, you would need to file your action for an accounting against the operator.

KATIE DYE: Well, I'm not saying that they made a mistake. I'm just saying I want to know---.

SHARON PIGEON: You're asking for an accounting isn't saying they made a mistake. It's asking---.

KATIE DYE: No.

SHARON PIGEON: ---for an accounting. That's what

you want.

KATIE DYE: But the Board seizes what belongs to me but yet doesn't provide me a breakdown of the accounting.

SHARON PIGEON: The Board doesn't require it be provided to them.

KATIE DYE: Should it not?

SHARON PIGEON: It isn't. Recognizing what the law, it doesn't.

KATIE DYE: Well, you know, if we talked about the law and you look in the Code of Virginia, there's actually no law that allows these post production costs to begin with and we do that under a Board order under the broad discretionary powers of the Board.

SHARON PIGEON: That's correct.

KATIE DYE: So, what you're saying is you think we're on sound legal ground here?

SHARON PIGEON: Yes. The Regs only require costs to be reported for participating operator's use and that's specifically addressed in the Regs. So---.

KATIE DYE: But we don't address anything in the Board order stating how these deductions should be taken and broke down or anything?

SHARON PIGEON: We're not now, no.

DAVID ASBURY: You're talking about force pooled

individual?

KATIE DYE: Uh-huh. Yes.

BRUCE PRATHER: Their royalty interest...they have no---.

DAVID ASBURY: If they're deemed to have leased and they're royalties, the royalty is spelled in the order under the option that they'll be a royalty interest less post productions. Those are expenses.

KATIE DYE: Yeah, we know what the deductions are, like the gathering and the compressing---.

DAVID ASBURY: Right.

KATIE DYE: ---the drying, the marketing fees and all of those things that were calculated against their one-eighth royalty. But what I'm saying is are they not entitled to have this breakdown if they request it?

RICK WRIGHT: I think if they were to request it we would give it to them. I mean, we...that happens all of the time. The royalty owner calls in and says I've lost some stuff. Can you please resend it? If they call and they ask the question, I think we would respond to them.

BRUCE PRATHER: Mr. Chairman, I've got a comment.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: The thing that gets me about this is the fact that the royalty owner or anybody that's in one

of these wells...as far as I'm concerned when I get my 1099 or W-2 or whatever it is at the end of the year I can take my net income off of my royalty interest and add it up and it should equal what that tax return says. And I just wondered how many people that receive these things, well, you know, that all they've got to do is add up what their net revenue is and it will...should equal what that 1099 is.

RICK WRIGHT: Right.

BRUCE PRATHER: Whether you're a royalty owner or even in the working interest. And that's the way I do it. I mean, I always check on a monthly basis and then at the end of the year when I get my 1099, I make sure that everything is in focus so to speak and correct.

KATIE DYE: It is in focus as a whole when you look at it like that. But you can't look at what you were charged for transportation, what you were charged for (inaudible) and what you were charged for drying because that is not broken out for you.

SHARON PIGEON: Well, you can ask the operator for it and if they provide it then you have it. It doesn't have to come through the Board for you to have access to it and the Board doesn't have any mechanism for requiring that information. There's no Regs that requires it. There's no statutory position that requires it.

MARK SWARTZ: I think that everybody at this table was at Board committee meetings where the Board wanted that information within the last couple of years. I attended one of those meetings and, you know, we showed up with actually more detailed than this. And so...I mean, we have responded to that kind of question from the Board and I know that we will do it again. But that was...because I know some of you were on that committee. I mean, there were a lot of numbers...you know, much more details because I think the Board was interested in, okay, where is that...you know, where is the totality that that number come from. I know the information that we presented was on annual basis rather than a monthly basis. But we certainly...speaking on behalf of CNX, you know, I feel like we've done this in the past and we will do it again in terms of if we were asked we would provide that information, you know, on a periodic basis. But in terms of doing it on the royalty statement, I think that's a different enquiry. I think if the Board is interested in looking at what operators are charging to get this deduct number on an annual basis, that's certainly a legitimate question and we've responded in the past and I'm sure we would in the future.

SHARON PIGEON: In a general way and not individually though?

MARK SWARTZ: Not in...well, because...well, as...I'm sorry, your name?

RICK WRIGHT: Rick...Rick.

MARK SWARTZ: The number that goes in the royalty accounting program comes from across the accounting program, which is a completely...so, it's essentially a plugged number for royalty basically. They've only...you know, they don't talk to each other because they don't have to. But in terms of getting the kind of cost accounting number, you know, we've done that in the past for you all when you've asked and I'm sure we can do it again. I mean, the numbers are there. As far as...I think we are willing to and have given that kind of information in the past when asked and would continue to do it and not doing it because of what the law requires. It doesn't mean we haven't done it in the past and I'm sure we'll do it in the future.

MARY QUILLEN: Mr. Chairman, just one---

BUTCH LAMBERT: Ms. Quillen.

MARY QUILLEN: ---clarification. If an individual would contact your office, just as Rick said that people call them to provide information, you don't have a problem with that if someone needs that information or wants that information of being able to provide it?

MARK SWARTZ: In general, no, but, you know, we're

going to...when you give somebody a snapshot number, what are they going to do with it, okay?

MARY QUILLEN: That is true.

MARK SWARTZ: So, I'm...you know, I know that my client does cost workups on a regular basis because they're dealing with West Virginia and Pennsylvania and some of their applications they do require it. So, I know that the information is available. I'm sure they could respond. The problem with any of this, you know, if somebody shows up a year from now with this number, well, you know, this is a number that was legitimate, you know, that takes care your costs for these periods, but what are you going to use it for.

MARY QUILLEN: Uh-huh.

MARK SWARTZ: So, my experience with my client has been that they would respond to that kind of enquiry, but you need to be careful because these numbers are complicated and they change from day to day.

MARY QUILLEN: Right.

BUTCH LAMBERT: Any other comments from the Board?

(No audible response.)

BUTCH LAMBERT: Okay, to move us along, I think what we will proceed from here is that...I understand that the industry is not opposed to including this information on

a yearly basis with W-9s, is that what I'm hearing?

MARK SWARTZ: I don't think you heard that.

(Laughs.)

BILL HARRIS: I think I may have suggested it.

JERRY GRANTHAM: I'm sure there's a censuses with the industry.

MARK SWARTZ: Well, I think...I think everybody is agreeable to giving it to the Board so that if you can posted it on the website on an annual basis so that people could have access to it. I don't think that that's...I heard that.

BUTCH LAMBERT: Okay.

MARK SWARTZ: I heard problems about mailing it to different states and W-9s and so on.

JERRY GRANTHAM: Yeah, I think posting it on a website would be probably the preference so that we don't have to incur the expense of the mailing side to the individual folks together. But making it...getting it to where people can access it who have an interest in it.

BUTCH LAMBERT: Okay. All right. Let me clear it...let's clear that up then. We'll receive it and post it on our website. How often? Quarterly or yearly?

JERRY GRANTHAM: I would suggest year-end and have it post it probably in the first quarter because that would

give it (inaudible). Is that correct, Rick?

RICK WRIGHT: Correct.

DAVID ASBURY: With annual production.

FRANK HENDERSON: It would be annual numbers
(inaudible)---.

BRUCE PRATHER: Yeah.

BUTCH LAMBERT: With production numbers.

FRANK HENDERSON: ---in the first quarter of the
following year.

BUTCH LAMBERT: Okay.

BILL HARRIS: Let me ask a question clarification.
When we say the annual number at the end of the year, we
would not see this detail every three months?

JERRY GRANTHAM: Correct.

BILL HARRIS: We would just see a number, a percent
for the year?

JERRY GRANTHAM: It's a breakout of what items of
the...I guess five items that are going to be year-end
production of what the percentage basis for each of those
items.

BILL HARRIS: But for the...but it would be a one
number for the year rather than--?

FRANK HENDERSON: It would be an average for the
year.

BILL HARRIS: ---four numbers for the year or whatever? In other words, this...you know, this...I guess, this lacks, what is this, every three months I guess it is?

RICK WRIGHT: Yes.

BILL HARRIS: I guess what I'm asking...if I were a royalty owner...I mean, if I were a citizen receiving money...well, the same thing, I would probably be interested in these different periods there. I don't if an annual---.

JERRY GRANTHAM: I think an annual is going to be a much better representation of the number. I think it would fluxate-.

FRANK HENDERSON: (Inaudible) fluxates on a quarterly basis---.

BUTCH LAMBERT: Well---.

JERRY GRANTHAM: We had a lot of down volume in December, for example, because of the storm. So, my guess is because as Mr. Swartz said it's based on how much throughput is going through there. So, I'm concerned that that seeing it go up and down because of volume or curtailments in the summer or whatever the issues are may cause more, you know, volume higher now and lower now---.

BILL HARRIS: Yeah, confusion.

JERRY GRANTHAM: ---whereas an average number for the year is something that everybody can understand and

probably even get back to and say, okay---

FRANK HENDERSON: And that amount would match your...you know, what's on your statement.

BILL HARRIS: Well, that would...I guess that was my next question if it would. Even when averaged that way?

FRANK HENDERSON: (Inaudible).

RICK WRIGHT: I mean, ours would. If you took all four quarters and you averaged them and---

BILL HARRIS: And then applied it then...yeah.

RICK WRIGHT: ---averaged that with the same twelve month average you should get the same number.

BILL HARRIS: Okay. Yeah.

BUTCH LAMBERT: Okay.

BILL HARRIS: Thank you.

BUTCH LAMBERT: Have we got that all clear?

BILL HARRIS: That would be fine.

BUTCH LAMBERT: And in addition to...in addition to that, we will continue with our town hall meetings between DMME and VOGA and we'll make this as a modular. Okay?

BRUCE PRATHER: I have one question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: Are all of you convinced that your software can handle what is being proposed so far? I mean,

we're not...we're not talking about somebody's software that can't put out the report that we're discussing here.

JERRY GRANTHAM: Well, it wouldn't be a payment statement basis. So, it's just an accounting somewhere.

RICK WRIGHT: Just like cost accounting.

JERRY GRANTHAM: It's a cost accounting.

MARK SWARTZ: I think what Mr. Lambert described I think is durable, okay, from what I heard from everybody.

BRUCE PRATHER: Okay. Good.

BILL HARRIS: Well, let me ask one other question then, is this possible to do for the previous year or are we talking about starting this at the end of this year because we still have lots of...I mean, it would be nice if that information is available. Not trying to put pressure on you all, but it would be nice if that were available for 2009. Would that---?

RICK WRIGHT: We can do it.

KEVIN WEST: I think we can do it.

BILL HARRIS: That would almost be an immediate, I hate to use the word gratification, but that would...for people that are concerned they would see something within the next month or two that would say, oh, this is what happens.

KEVIN WEST: Yeah, we may...this year we may need a

little bit of additional time. In the future, we can say we'll have it done by the end of the first quarter. Since we're getting sort of a late start on it---

BILL HARRIS: Yes, I understand that. I appreciate that. But I just---

MARY QUILLEN: But it would still match up with their statement?

JERRY GRANTHAM: On an average basis.

MARY QUILLEN: Uh-huh.

MARK SWARTZ: Except for my client because we're charging less but it will be the other number, you know.

SHARON PIGEON: The actual number?

MARK SWARTZ: Correct. Well, on a through put basis for a year, correct. It is the real number for a year on a through put basis.

SHARON PIGEON: Right. But not the number you're charging?

MARK SWARTZ: Correct.

BUTCH LAMBERT: Any other comments?

(No audible response.)

BUTCH LAMBERT: So, I think we have a plan to move forward and send out a report to those folks that are asking questions of how we're proceeding I will take care of that.

MARK SWARTZ: Thank you, Mr. Chairman.

BUTCH LAMBERT: Thank you, gentlemen. We appreciate your time.

BILL HARRIS: Thank you.

FRANK HENDERSON: Thank you.

MARY QUILLEN: Thank you.

BUTCH LAMBERT: We're going to take a ten minute break. Let's resume back at 11:00 o'clock promptly, please.

(Break.)

BUTCH LAMBERT: Item three, a petition from CNX Gas Company, LLC for repooling of coalbed methane unit O-41, docket number VGOB-93-0420-0362-02. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz. Mr. Chairman, my client would like to withdraw docket items three that you just called, four, five and six.

BUTCH LAMBERT: Okay. Also calling a petition from CNX Gas Company, LLC for repooling of coalbed methane unit N-40, docket number VGOB-93-0420-0358-02. Also calling docket item five, a petition from CNX Gas Company, LLC for repooling of coalbed methane unit N-41, docket number VGOB-93-0420-0359-02. Also, calling docket item number six, a petition from CNX Gas Company, LLC for repooling of coalbed methane unit O-40, docket number VGOB-0420-0361-03. Those items will be withdrawn.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: Thank you, Mr. Swartz.

JIM KAISER: Mr. Chairman, my client with like to withdraw number seven and eight.

BUTCH LAMBERT: Okay. Calling docket item number seven, a petition from EQT Production Company for the creation of a unit and pooling of conventional well v-536901, docket number VGOB-09-1215-2647. Also calling docket item number eight, a petition from EQT Production Company for a modification of a 320 acre provisional drilling unit EQT 2401 for the drilling of a horizontal conventional gas well, docket number VGOB-08-1219-2401-01. Those items will be withdrawn. Calling docket item number ten, a petition from EQT Production Company for the pooling of unit and well VC-537199, docket number VGOB-10-0119-2662. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman and Board members, Jim Kaiser and Rita Barrett on behalf of EQT Production. We have a revised plat and some revised exhibits to hand out for this unit.

(Rita Barrett is duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

having been duly sworn, was examined and testified as

follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, if you'd state your name for the record and who you're employed by?

A. Yes, my name is Rita McGlothlin-Barrett. I'm employed by EQT Production Company in Clintwood, Virginia.

Q. Before we get into any of your standard testimony, can you explain to the Board why we have filed a set of revised exhibits and a revised plat for this unit?

A. Yes. The initial well was located on what's tract...what's shown as Tract 9 here. We actually moved this well to accommodate that surface owner. So, the revised exhibits are simply just renumbered based on the renumbered plat for the well numbers.

Q. Okay. And does Equitable own drilling rights...does EQT own drilling rights in the unit involved here?

A. We do.

Q. Prior to the filing of the application, were efforts made to contact each of the respondents and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What is the interest under lease to ET in the gas estate in the unit?

A. 99.22%.

Q. And in the coal estate?

A. 100%.

Q. Are all unleased parties set out at Exhibit B-3?

A. They are.

Q. Revised Exhibit B-3?

A. Yes.

Q. So, the only interest in the unit that remains unleased is .78% of the gas estate, is that correct?

A. That's correct.

Q. Okay. We don't have any unknown and unlocateables, correct?

A. Correct.

Q. In your professional opinion, was due diligence exercised to locate each of the respondents named in Exhibit B?

A. Yes.

Q. Are you requesting that we force pool all unleased interest listed at Exhibit...revised Exhibit B-3?

A. Yes.

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

A. Yes.

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

A. Twenty-five dollar per acre paid up for a five year term with a one-eighth royalty.

Q. In your opinion, do the terms you've testified to represent the fair and reasonable compensation to be paid for drilling rights within this unit?

A. Yes.

Q. Now, based on the respondents listed at revised Exhibit B-3 who remain unleased, do you agree that they be allowed the following statutory options with respect to their ownership interest within the unit: 1) Direct participation; 2) a cash bonus of five dollars per net mineral acre plus a one-eighth of eight-eighths royalty; or 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 or her 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 applicable to his or her share equal, A) 300% of the share of such costs applicable to the interest of the carried operator of a leased tract or portion thereof; or B) 200% of the share of such costs applicable to the interest of a carried operator of an unleased tract or portion thereof?

A. Yes.

Q. Do you recommend that the order provide that elections by respondents be in writing and sent to the applicant at EQT Production Company, Land Administration, P. O. Box 23536, Pittsburgh, Pennsylvania 15222, Attention---?

A. Christy Shannon. We have a new---.

Q. Okay. Do you recommend that the order provide that if no written election is properly made by a respondent, then that respondent should be deemed to have elected the cash royalty option lieu of any participation?

A. Yes.

Q. Should the unleased respondents be given 30 days from the date that they receive the Board order to file their written elections?

A. Yes.

Q. If an unleased respondent elects to

participate, should they be given 45 days to pay their proportionate share of actual well costs?

A. Yes.

Q. Should the applicant be allowed a 120 days following the recordation date of the Board order and thereafter annually on that date until production is achieved, to pay or tender any cash bonus or delay rental becoming due under the force pooling order?

A. Yes.

Q. Do you recommend that if a respondent elects to participate, but fails to pay their proportionate share of well costs then that election to participate should be treated as having been withdrawn and void?

A. Yes.

Q. Do you recommend that the order provide that where a respondent elects to participate but defaults in regard to the payment of actual well costs any cash sum becoming payable to that respondent be paid by the applicant within 60 days after the last date on which that respondent could have paid their costs?

A. Yes.

Q. In this particular unit, we do need the Board...the Board does need to establish an escrow account, is that correct?

A. That's correct.

Q. Tracts 3, 4, 5, 6, 7 and 9.

Q. Who should be named operator under any force pooling order?

A. EQT Production Company.

Q. And what's the total depth of the proposed well?

A. 2,581 feet.

Q. The estimated reserves over the life of the unit?

A. 250 million cubic feet.

Q. Has an AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs for this proposed well?

A. Yes.

Q. Could you state both the dry hole costs and completed well costs for this well?

A. Yes, the dry hole costs are \$145,734. The completed well costs are \$450,575.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

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

A. Yes.

JIM KAISER: Nothing further of this witness at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

BILL HARRIS: Mr. Chairman, let me just ask a informational question. You said the plat was redone. This probably...I've never been aware of this. I probably shouldn't admit this. But why was it necessary to renumber? Is the---

RITA BARRETT: Because we number our drill site Tract 1.

BILL HARRIS: 1?

RITA BARRETT: Yes.

BILL HARRIS: Okay. Because I saw that---

RITA BARRETT: Yes. That's all that is.

BILL HARRIS: Now, is that standard pretty much across the industry?

RITA BARRETT: It is with us, yes.

BILL HARRIS: Okay. I just...okay, thank you. That was it.

BUTCH LAMBERT: Mr. Barrett, I heard you say the reason that you moved that well was to accommodate the land owner.

RITA BARRETT: Yes.

BUTCH LAMBERT: We initially had that well on what's now Tract 9. You'll notice that Tract 9 is Dorothy Ring and others who remain unleased. So, we moved the well to get it off their surface.

BUTCH LAMBERT: Do you have...do you have the original plat that you submitted?

RITA BARRETT: I'm sure, yes.

BUTCH LAMBERT: Because the exhibit that we have shows the well on Tract 1.

RITA BARRETT: That's the new exhibit showing the well on Tract 1.

BUTCH LAMBERT: No.

SHARON PIGEON: But nothing has changed...has not changed. It has remained the same on the two exhibits.

RITA BARRETT: Right. Each tract in the unit is...all it is it's just numbered differently after move the well.

BUTCH LAMBERT: No, you missed my question. Go back to the original exhibit.

RITA BARRETT: I'm trying to find it.

BUTCH LAMBERT: Okay. On the original exhibit, it doesn't show the well on Tract 9.

RITA BARRETT: I'm sorry. It shows it pooling Tract 9. So, the reason we moved it was because our pit was going to be...was going to affect Tract 9...that Tract 9 surface. I'm sorry.

BUTCH LAMBERT: Okay.

SHARON PIGEON: Thank you. A better answer.

JIM KAISER: We didn't have a lease. So, we didn't have any surface.

RITA BARRETT: Right.

BUTCH LAMBERT: Okay.

BILL HARRIS: Okay.

BUTCH LAMBERT: Any other questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: No, we'd ask that the application be approved with the revised exhibits and the plat.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: Our motion is second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify in the affirmative.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Mr. Kaiser, before we close that one, one of the exhibits that we handed out, AA---.

RITA BARRETT: That's just for informational purposes that you requested at the previous hearings.

BUTCH LAMBERT: Okay. We did. We appreciate that. That's very helpful. Thank you. The next item on the docket is a petition from EQT Production Company for a modification of the Nora Coalbed Gas Field to allow for an additional well to be drilled in units AA-37...or 73, I'm sorry, AA-75, AI-74, AL-80 and AZ-52, docket number VGOB-89-0126-0009-60. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser, Rita Barrett and Josh Doak on behalf of EQT Production.

BUTCH LAMBERT: I'm sorry, the last name?

JIM KAISER: D-O-A-K, Doak.

BUTCH LAMBERT: Okay, thank you. It's a new one. We didn't recognize that name.

(Josh Doak is duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

JIM KAISER: We'll start with Ms. Barrett.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, did you notify all oil, gas and coal owners as required by statute to this hearing?

A. Yes, we did.

Q. And did we also publish because there is some interest owned by the Yellow Popular Lumber Company in this unit?

A. We did.

JIM KAISER: Nothing further of Ms. Barrett at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Kaiser.

JOSH DOAK

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

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

A. Josh Doak, employed by EQT Production as a development engineer.

Q. And since you have not previously testified before the Gas and Oil Board, could you briefly go through both your educational background and work history?

A. Yes. I have a Bachelor's Degree in Petroleum Engineering from Marietta College in 2004. I worked five years for EQT Production in Charleston and Pittsburgh as a drilling engineer and the last eight months as a development engineer for Virginia.

Q. And, of course, you're familiar with the increased density drilling program?

A. Yes.

Q. And you have provided for the Board today...for this hearing today a handout?

A. Yes.

Q. If you could, at this time, and we'll get into...yeah, you've already...he's catching on quick. You've got the exhibits right. That's good.

A. Yes.

Q. Would you go through the handout for the Board and explain how this process was developed and the

reason that we wish to continue to drill some increased density wells?

A. Exhibit AA, this kind of highlights the years that we've drilled this increased density program. It just highlights for the past year 2009, which was the busiest year yet. We drilled eighty-seven wells...infill wells with the cumulative production of almost a bcf for 2009 and additional revenue of 4.9 million per day. If you will look at the total for the program, we've drilled 163 wells year-to-date at almost 4 bcf of production so far and we're producing around 8.9 million per day. Exhibit BB highlights the effect of the increased density wells to the additional wells. The blue line at the bottom of the graph represents the production from the original wells in each grid. As you can see over the past four years it has maintained kind of a steady rate. The red represents the increased rate that we've gotten from drilling the infill wells. I'll just highlight the last month there. That was a little deep on the production. It highlights the storm that hit in mid-December. So, we had quite (inaudible) in production. That's that decline. Exhibit CC represents the fields. All the grey areas kind of zoom out the areas represents the wells of the grids that were already approved. The small green areas highlight the wells that

we're talking about here today. Exhibit DD-1 highlights four of the grids that we're trying to get approved for increased density wells, AA-73, AI-74, AH-75 and AL-80. Exhibit DD-2 exhibits the final well AZ-52.

Q. So, it would be your experience and your testimony that drilling additional wells in at least some of these CBM units is a good use of the company's (inaudible)?

A. Yes.

Q. And the incremental production, obviously, is such that it supports that?

A. Yes.

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

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: Mr. Chairman, I've got a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: Would any of these units have any correlative rights problems with them? Would there be adjacent wells drilled by other operators or this, that and the other? Was there any problem with that? In other words I realize you're going to drill a second well in an already established unit. But on these CBM plats, we don't get all of the wells on the things and I'm just rather curious since some of these are isolated out by themselves, do any of them

have correlative rights for all of these that you know of?

RITA BARRETT: We haven't identified any in this units, Mr. Prather.

BRUCE PRATHER: Okay, that's fine.

JIM KAISER: Yeah, these all Nora wells.

BRUCE PRATHER: Okay.

BUTCH LAMBERT: Anything further, Mr. Kaiser?

(No audible response.)

BUTCH LAMBERT: No, we'd ask that the application be approved as submitted, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify in the affirmative.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's approved. The next item on the docket is item number twelve, a petition from Range Resources-Pine Mountain, Inc.

for the establishment of a provisional drilling unit RR 2670 consisting of 320 acres for the drilling of a horizontal conventional gas well, docket number VGOB-10-0216-2670. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser, Phil Horn and Gus Jansen on behalf of Range Resources-Pine Mountain Oil and Gas. I think it would probably be advantageous to go ahead and call item thirteen too.

BUTCH LAMBERT: Okay. Calling item thirteen, a petition from Range Resources-Pine Mountain, Inc. for the establishment of a provisional drilling unit RR 2671 consisting of 320 acres for the drilling of horizontal conventional gas well, docket number VGOB-10-0216-2671. You may proceed, Mr. Kaiser.

JIM KAISER: Mr. Horn, we'll start with you. If you'd state your name for the Board, who you're employed by and in what capacity.

(Phil Horn and Gus Jansen are duly sworn.)

PHIL HORN

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Horn, if you'd state your name for the record, who you're employed by and in what capacity.

A. My name is Phil Horn. I'm the land manager for Range Resources-Pine Mountain, Inc.

Q. And let's start with the well we're calling 2670.

A. Okay.

Q. Have we noticed everybody within this unit as required by statute, that being all the oil, gas and coal owners?

A. Yes.

Q. And we did publish because we did have one unknown interest in the unit, is that correct?

A. That's correct.

Q. Now, turning your attention to 2671. The same questions. Have we noticed all of the people entitled to notice under the statute?

A. That's correct.

Q. And, again, did we publish again because of some unknown interest in that unit?

A. That's correct.

JIM KAISER: Nothing further of this witness at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue.

GUS JANSEN

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

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

A. My name is Gus Jansen. I'm employed by Range Resources-Pine Mountain as manager of geology.

Q. And you've been kind of the point man on these horizontal units for some time now?

A. Yes, that's correct.

Q. And you've prepared a package of...a handout of information to go along with your testimony today?

A. That's correct.

Q. And at this time...and will this testimony apply to the establishment of both of these units that they're hearing today?

A. Yes, it will.

Q. Okay. If you would go through that handout

for the Board.

A. If the Board would refer to Exhibit AA, this is a snapshot of the previous that we proposed today 2670 and 2671. It shows the relationship to adjacent units that have been previously approved by the Board. And proposed well (inaudible). Again, our concept here is to drill off the same pads that we have in the past relative to the wells. We put five reservoir characteristics in the general area. In the past we had scattered several well units throughout basically Dickenson County, mainly Buchanan, Wise and Russell. We had a concentration on the western side of the property. Again, we're trying to look at the attached units off the different legs to (inaudible). Exhibit DD it again shows the characteristics of the 320 acres. They are square units. The dimensions are show there. They also have the 300 foot set back for the production for the horizontal leg inside that unit. It allows the drilling to...drill up to... allow up to 4,431 feet. Again, some of the characteristics of the units, we talked about the square units on the interior (inaudible) offset from the adjacent horizontal wellbore from the same horizon. We also have allowed for the 600 foot distance between the horizontal wellbore from any vertical well that may be producing from the same horizon. The establishment

of this unit would allow for multiple wells and laterals for maximum drainage of any additional reservoir that may be in this unit. We will also be able to drill the surface location inside or outside the unit so long as that production in (inaudible). Exhibit DD is a typical horizontal well plan. In this specific case, we are showing part of the Lower Huron Shale. We will be targeting the other formations such as the Big Lime and the Berea Sand, which we have done in the past. We specifically have a different landing in this formation is a lateral extending out from those. Again, we have the same casing departments that are required under the vertical horizontal program. In Virginia, they requires the surface, the casing, which provides to protection of the ground water in the area, and we also have the 7" coal protection casing string that provides protection for any coal that may be mined in the area. You can see targeting into the shale formation. Finally, Exhibit EE goes through the (inaudible) provides the working interest owners or royalty interest the benefits of the maximizing the production, to promote the conservation of gas resource, prevent waste and effectively extract the resource. The laterals allow us drill into areas that were inaccessible from the surface. We have less potential impact on the coal. We have less physical impact

on the surface. The square units, again, (inaudible).

Q. Thank you, Mr. Jansen. Since the January hearing, just four weeks ago, you gave a fairly comprehensive update of where Range-Pine Mountain with your program. Is there anything to add?

A. No real change. We're trying to get our units established and let the program go through this year in any additional drilling areas. It's in line to complete our program for this coming year.

JIM KAISER: Thank you. Nothing further at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

BILL HARRIS: Let me ask---

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: ---a question actually pertaining to what you just eluded to about the production. The...looking at Exhibit AA, you know, you have units...that one unit, I guess, is drilled in 2009. How is the production...I guess, you would be able to justify having another unit adjacent to that. I know that these are in different regions. I know the usual overall production differs depending on where you are. Were all of these...do all of these have the same target depth?

GUS JANSEN: The same target formation.

BILL HARRIS: The same formation, yes. The depth or the formation.

GUS JANSEN: In that particular instance, if you're looking at the 2670 unit, the adjacent well that was drilled in 2009 the Lower Huron well that is a target in this particular...in this initial look in this area. That appears to be in the formation. Again, we've talked about the past 320 acre units that we do not think is being drained fully and carefully with one lateral. Again, you know, we've run multiple laterals in some of these units over in the western side of the fields and in different reservoirs in the Big Lime and the Berea formation also. So, in that case, if your question is if the offsetting units would give us information because we are still, you know, that will not be impacted by the existing well and that's what we're trying to find out. That's the reason it's adjacent here.

BILL HARRIS: Okay. Okay. Yeah, thank you.

MARY QUILLEN: Mr. Chairman, just one question. Are both of these 2670 and 2871 both in the Lower Huron?

GUS JANSEN: Well, both...the units again are established through any formation that you prefer. We would address that in the permitting process with each individual well permit. I know with the case of 2671 we have drilled

the Big Lime in the offset units for that and we'll probably intend to drill multiple laterals in that unit. The Big Lime, we have not tested extensively over the eastern part of the field. But it is a part of our plan for them to do that. So, we would like to have that opportunity to do that and plus in the other formation that we may find respective, you know, that we may not have even done to that.

MARY QUILLEN: So, this Exhibit DD just is that, just a general exhibit?

GUS JANSEN: Right.

MARY QUILLEN: Not specific?

GUS JANSEN: Well, you typically show the Lower Huron because that is what we've done the most of to-date.

MARY QUILLEN: Right. Right.

GUS JANSEN: That has been our most targeted formation.

BRUCE PRATHER: Well, I have a question. I assume that the one reason that you could do this is the fact that if you drill the horizontal hole in the Lime or the Berea the hole would stand up. In other words, you wouldn't have to worry about the hole collapsing on your as far as the Big Lime is concerned. You could drill it out there and just take what you had natural.

GUS JANSEN: Right. We have actually completed

fracturing in the Big Lime also and the Berea.

BRUCE PRATHER: Yeah. But, I mean, you wouldn't have to. You could just drill that and see what you've got.

GUS JANSEN: We've seen that too where we've had the natural production without having to do any stimulation--.

BRUCE PRATHER: Yeah.

GUS JANSEN: ---to drill our horizontal.

BRUCE PRATHER: Okay.

BUTCH LAMBERT: Any further questions?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: Mr. Chairman, we'd ask that the applications be approved as submitted.

BUTCH LAMBERT: Do I have a motion for both items twelve and thirteen?

MARY QUILLEN: Motion to approve items twelve and thirteen.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's approved.

SHARON PIGEON: Jim, did you say that Yellow Popular had an interest in these?

JIM KAISER: No. Yes, they do in the 26---

BUTCH LAMBERT: In the first one.

JIM KAISER: The first one.

BUTCH LAMBERT: The first one and not in the second one.

JIM KAISER: 2670.

PHIL HORN: Who?

JIM KAISER: Yellow Popular.

SHARON PIGEON: Yellow Popular.

JIM KAISER: Well, we listed them.

BUTCH LAMBERT: Yeah, I think you've got them listed.

MARY QUILLEN: They're in one of them.

JIM KAISER: I'm sorry, no, they don't. That was Equitable. That was the increased density.

SHARON PIGEON: Okay.

BRUCE PRATHER: That was the previous one.

JIM KAISER: I'm sorry. Phil, he's about to have a heart attack.

SHARON PIGEON: All right.

BUTCH LAMBERT: Sorry, Phil.

JIM KAISER: That would have been item number eleven. But we did...but we did publish on both of ours.

SHARON PIGEON: Thank you so much.

MARY QUILLEN: Yeah, there was an unknown in it. But it wasn't Yellow Popular.

JIM KAISER: Exactly.

BUTCH LAMBERT: The next item on the docket is item fourteen, a petition from EQT Production Company for the pooling of coalbed methane unit VCI-539488, docket number VGOB-10-0216-2672. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser and Rita Barrett for EQT Production.

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, are you familiar with the application that we filed seeking to pool any unleased

interest within this unit?

A. I am.

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

A. We do.

Q. Prior to the filing of the application, were efforts made to contact each of the respondents owning an interest in the unit?

A. Yes.

Q. An attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What is the percentage under lease to Equitable within the gas estate in this unit?

A. 97.77%...oh, I'm sorry, 0%.

Q. And what is the interest under lease to Equitable in the coal estate?

A. 97.77%.

Q. So, a 100% of the gas estate remains unleased and 2.23% of the coal estate remains unleased?

A. That's correct.

Q. Are there any unknown or unlocatebales in this unit?

A. Yes.

Q. And that would be?

A. Gally Friend, Trustee of Yellow Popular Lumber Company.

Q. And were reasonable and diligent efforts made and the sources checked to identify and locate these unknown owners?

A. Yes.

Q. In your professional opinion, was due diligence exercised to locate each of the respondents named in Exhibit B?

A. Yes.

Q. Are you requesting the Board to force pool all unleased interest listed at Exhibit B-3?

A. Yes.

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

A. I am.

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

A. Yes. Twenty-five dollar per acre paid up for a five term and a one-eighth royalty.

Q. In your opinion, the terms you just testified to represent the fair market value of and the fair

and reasonable compensation to be paid for drilling rights within this unit?

A. They do.

JIM KAISER: Mr. Chairman, at this time, I'd ask that we be allowed to incorporate the testimony taken earlier in item ten, docket number 2662 regarding the statutory elections afforded any of the unleased parties.

BUTCH LAMBERT: Accepted.

Q. Ms. Barrett, does the Board need to establish an escrow account for this well?

A. Yes.

Q. And that would be for what Tract 1?

A. Tract 1.

Q. Okay. And who should be named operator under any force pooling order?

A. EQT Production Company.

Q. The total depth of the proposed well?

A. 2,524 feet.

Q. The estimated reserves over the life of the well?

A. 275 million cubic feet.

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

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of the well costs?

A. Yes.

Q. Can you state the dry hole costs and completed well costs for this well?

A. Yes, the dry hole costs are \$136,668 and the completed well costs are \$338,015.

Q. Do these costs anticipate a multiple completion?

A. They do.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

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

A. Yes.

JIM KAISER: Nothing further of this witness at this time, Mr. Chairman.

BUTCH LAMBERT: Ms. Barrett, would you...again, what was the completed costs?

RITA BARRETT: Completed costs are \$338,015.

BUTCH LAMBERT: Thank you. Any further questions

from the Board?

KATIE DYE: Mr. Chairman, I just have a comment. When we're looking at our docket, they have it written as EQT has a 100% of the gas estate leased.

DAVID ASBURY: Yes, it should be 0% of the gas.

MARY QUILLEN: It was a typo on that because the exhibit shows that it's 0.

BUTCH LAMBERT: Any other questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Kaiser.

JIM KAISER: We'd ask that the application be approved as submitted, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify in the affirmative.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's

approved.

JIM KAISER: Thank you.

BUTCH LAMBERT: The next item on the docket is item fifteen, a petition from EQT Production Company for the pooling of coalbed methane unit VCI-539484, docket number VGOB-10-0216-2673. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser and Rita Barrett for EQT Production.

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, are you familiar with the application that we filed seeking to pool any unleased interest in the unit for this well?

A. Yes.

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

A. We do.

Q. Prior to the filing of the application, did you make an attempt to obtain a voluntary lease agreement from each respondent?

A. Yes.

Q. What is the interest owned by Equitable within the gas estate in this unit?

A. 0%.

Q. And the coal estate?

A. 100%.

Q. Are all unleased parties set out in Exhibit B-3?

A. Yes.

Q. So, a 100% of the gas estate remains unleased?

A. That's correct.

Q. And is that due to an unknown owner?

A. It is.

Q. And that is who?

A. Gally Friend, Trustee of Yellow Popular Lumber Company.

Q. Were reasonable and diligent efforts made and sources checked to identify and locate these folks?

A. Yes.

Q. In your professional opinion, was due diligence exercised?

A. Yes.

Q. Are you requesting this Board to force pool

all unleased interest listed at Exhibit B-3?

A. Yes.

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

A. Yes.

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

A. Yes. A twenty-five dollar per acre paid up five year term and one-eighth royalty.

Q. In your opinion, do the terms you've testified to represent the fair and reasonable compensation to be paid for drilling rights within this unit?

A. Yes.

JIM KAISER: Again, Mr. Chairman, we'd ask that the statutory election options afforded any unleased parties and the ramifications thereof first taken 2662 earlier today be incorporated for purposes of this hearing.

BUTCH LAMBERT: Accepted.

Q. Ms. Barrett, does the Board need to establish an escrow account for this unit?

A. Yes, unit Tract 1.

Q. And who should be named operator under any force pooling order?

A. EQT Production Company.

Q. The total depth of this proposed well?

A. 2,504 feet.

Q. Estimated reserves over the life of the well?

A. 275 million cubic feet.

Q. Has an AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of the well costs?

A. Yes.

Q. Could you state the dry hole costs and completed costs for this well?

A. Yes. The dry hole costs are \$126,038 and completed well costs are \$337,637.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of this application be in the best interests of

conservation, the prevention of waste and protection of
correlative rights?

A. Yes.

JIM KAISER: Nothing further of this witness at
this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

BILL HARRIS: Mr. Chairman.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: In the plat that we have, there's
another well down at the bottom.

JIM KAISER: That's an increased density well.

BILL HARRIS: Is that what that is, an increased
density---?

JIM KAISER: This well is an increased density
well.

BILL HARRIS: This one is, okay. Okay, I didn't...
somewhere I missed that. But, yes, okay. That's what I
wondered about if...okay. That's the answer to it. Thank
you.

BUTCH LAMBERT: Any other questions from the Board?

JIM KAISER: That's the VCI designation.

BILL HARRIS: Oh, okay. So, the other...okay, I
miss...saw the other one then. I didn't miss see it. I saw
it, but missed---.

RITA BARRETT: Our VC is Virginia Coalbed---.

BILL HARRIS: And then the VCI is the increased---.

RITA BARRETT: (inaudible).

BILL HARRIS: Okay, thank you.

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: We'd ask that the application...the application be approved as submitted, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify in the affirmative.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's approved.

JIM KAISER: Thank you.

BUTCH LAMBERT: The next item on the agenda is a item sixteen, a petition from EQT Production Company for the pooling of coalbed methane unit VCI-539473, docket number

VGOB-10-0216-2674. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, in this case, it will be Jim Kaiser and Mr. Jonathan York on behalf of EQT. We'll ask that he be sworn. Ms. Barrett is going to be on medical leave a little while and Mr. York, I guess, will be my witness in March and maybe April, correct?

RITA BARRETT: That's right.

(Jonathan York is duly sworn.)

BUTCH LAMBERT: You may proceed.

JONATHAN YORK

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

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

A. Jonathan York, EQT Production Company, Landman.

Q. Could you briefly go through your educational background and work history?

A. Yes.

Q. I have a B.A. from East Tennessee State

University in Political Science. I also have a Juris Doctorate from the Appalachian School of Law. I've been employed with EQT for three and a half years as both a contract and in-house landman.

Q. Are you familiar with the application that we filed seeking to pool any unleased interest in this unit?

A. Yes.

Q. And this, again, has increased density wells, correct?

A. Yes, it is.

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

A. Yes.

Q. And prior to the filing of the forced pooling application did you attempt to obtain a voluntary lease from each of the owners within the unit?

A. Yes.

Q. And what portion of the gas estate is under lease to EQT?

A. 0%.

Q. And the coal estate?

A. 100%.

Q. Are all unleased parties set out at Exhibit

A. They are.

Q. So, a 100% of the gas estate remains
unleased?

A. Correct.

Q. And could you tell me how that is?

A. Gally Friend, Trustee of the Yellow Popular
Lumber Company.

Q. Okay. Were reasonable and diligent efforts
made to identify and locate these folks?

A. Yes.

Q. In your professional opinion, was due
diligence exercised?

A. Yes.

Q. Are you requesting the Board to force pool
all unleased interest listed at Exhibit B-3?

A. Yes.

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

A. Yes.

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

A. Twenty-five dollars per acre paid up, five
year term and a one-eighth royalty.

Q. In your opinion, do the terms you've

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.

JIM KAISER: Mr. Chairman, again, I'd ask that we incorporate the election option testimony taken earlier in 2662.

BUTCH LAMBERT: Accepted.

Q. Mr. York, does the Board need to establish an escrow account for this unit?

A. They do. Tract 1.

Q. All right. And before we get into the operational testimony, I believe this well is outside of the interior window, is that correct?

A. Yes.

Q. Because there are no correlative rights issues?

A. No.

Q. And what is the proposed depth for this well?

A. 2,296 feet.

Q. And the estimated reserves over the life of the well?

A. 255 million cubic feet.

Q. Has an AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs?

A. Yes.

Q. Could you state both the dry hole costs and completed well costs for this well?

A. The dry hole costs are \$144,786 and the completed well costs are \$351,726.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of the this application be in the best interest of conservation, the prevention---

A. Yes.

Q. ---of waste and the protection of correlative rights?

A. It does.

JIM KAISER: Nothing further of this witness at

this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: We'd ask that the application be approved as submitted.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's approved. The next item on the docket is item seventeen, a petition from EQT Production Company for the pooling of coalbed methane unit VCI-539479, docket number VGOB-10-0216-2675. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser and Jonathan York for EQT Production.

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

JONATHAN YORK

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. York, are you familiar with the application that we filed seeking to pool any unleased interest within this unit?

A. Yes.

Q. Again, does EQT own drilling rights within the unit involved here?

A. Yes.

Q. Prior to the filing of the application, were efforts made to contact each owner and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. Again, we have 0% of the gas estate under lease and a 100% of the coal?

A. Correct.

Q. And, again, the unleased gas estate is Gally Friend, Yellow Popular?

A. It is.

Q. And, again, were reasonable and diligent efforts made and the sources checked to identify locate

these folks?

A. Yes.

Q. In your professional opinion due diligence was exercised?

A. It was, yes.

Q. Are we requesting the Board to force pool all unleased interest as listed at Exhibit B-3?

A. Yes.

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

A. Yes.

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

A. Twenty-five dollars per acre paid up, five year term and one-eighth royalty.

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

A. They do.

JIM KAISER: Again, Mr. Chairman, I'd ask that we incorporate the election option testimony taken previously in item 2662.

BUTCH LAMBERT: Accepted.

Q. Mr. York, does the Board need to establish an escrow account for this unit?

A. Yes. Tract 1.

Q. Okay. This particular well is inside the grid...inside the interior grid?

A. It is inside the interior grid.

Q. What is the proposed depth of this well?

A. 2,295 feet.

Q. And the estimated reserves over the life of the well?

A. 300 million cubic feet.

Q. Has an AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs for this well?

A. Yes.

Q. Could you state the dry hole costs and completed well costs for this well?

A. The dry hole costs are \$127,267.

Q. And the completed?

A. Oh. The completed well costs \$331,291.

Q. Do these costs anticipate a multiple

completion?

A. Yes.

Q. Do they include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of this application be in the best interests of conservation, the prevention of waste and the protection of correlative rights?

A. Yes.

JIM KAISER: Nothing further of this witness at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: I have one question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: The estimated well costs that we've got on our sheet here 337. Is 331 the correct one? The estimated well costs.

JIM KAISER: 331,291 is what the application has.

BRUCE PRATHER: We've got 337,647.

RITA BARRETT: It's a typo on the---

BRUCE PRATHER: Okay.

MARY QUILLEN: It is because it duplicates the costs. 15 has just been transposed down there on 17.

BRUCE PRATHER: Okay.

RITA BARRETT: The 331 is right.

JIM KAISER: And that's what is in the application.

BRUCE PRATHER: Okay.

SHARON PIGEON: The AFE.

BUTCH LAMBERT: Any further questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: We'd ask that the application be approved as submitted, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's approved.

JIM KAISER: Thank you.

BUTCH LAMBERT: The next item on the docket is item eighteen, a petition from Appalachian Energy, Inc. for a modification of Nora Coalbed Gas Field to allow for an additional well to be drilled in units D-94, D-95, D-96, E-94, E-95, E-96, F-94, F-95, F-96, F-97, F-98, G-95, G-96, G-97, G-98 and G-99, docket number VGOB-89-0126-0009-61. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser, Justin Phillips and Frank Henderson on behalf of Appalachian Energy.

(Justin Phillips and Frank Henderson are duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

JUSTIN PHILLIPS

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Phillips, we'll start with you. Could you state your name for the Board, where you work and what your job description is?

A. Justin Phillips, Landman for Appalachian

Energy, Inc.

Q. Okay. And did we notify and get green cards back from all of the coal, oil and gas owners in the sixteen units?

A. With the exception of a couple there that were unknown and unlocateable.

Q. Right. And did we publish to take care of that?

A. Yes, we did.

JIM KAISER: Okay. Nothing further of this witness at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Kaiser.

FRANK HENDERSON

having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Henderson, if you'd state your name, who you're employed by and in what capacity?

A. Frank Henderson, Appalachian Energy, President.

Q. And you've previously testified before the Board on Appalachian's increased density applications, is that correct?

A. That's correct.

Q. And in order to illustrate your testimony here today, you've prepared a handout for the Board?

A. That's correct.

JIM KAISER: You must not be good at following directions. These exhibits need to be...I guess they need to be AA, BB through EE.

SHARON PIGEON: There you go.

FRANK HENDERSON: My apologies to the Board.

(Exhibits are handed out.)

Q. We will do that. Let's just go ahead and renumber them AA through FF, if we could. If you would, please go through these...this presentation for the Board and explain what our claims are here and why we want to do this.

A. Okay. If you look at Exhibit AA, we went ahead and provided a colored exhibit to make this a little more...a little easier to recognize what we're trying to do. The yellow colored units are again that we previously applied for and we're approving for increased density.

Q. Again, this is in the Nora Field, is that

correct?

A. This is in the Nora Coalbed Methane Field, correct. The shaded blue units are what we are applying for in this application. Exhibit BB is a graph which depicts the increased density drilling. The lower graph line with the blue shaded below it represents the single wells that were drilled in the units that we've developed so far to date, units E-100, F-100 and G-100. Once the second wells are drilled you can see the impact on the second graph line above it and the difference being the contribution from the second well. Exhibit CC is just the backup data for the graph information. Again, the production information is based on reports filed with the Division of Gas and Oil. Exhibit DD is a supporting document which shows what the units that we have previously applied for and were approved for increased density in the Oakwood Field, which is approximately six miles south of this area where we have a lot more developed. I just wanted to go ahead and...we've submitted this information before. We went ahead and updated it to show units that have been developed. Exhibit EE reflects the updated information showing the additional gas that has been produced for the development of the second wells. Exhibit FF was the supporting data for those graphs.

Q. Based upon...it looks like these were

probably drilled somewhere in the area of (inaudible) bcf?
Would that be right?

A. That's...I don't have the exact number, but that's pretty close.

Q. And, obviously, we've applied for the authority from the Board's duty and these additional sixteen units. You obviously like what you see.

A. That's correct. It's pretty clear that the benefit of drilling these additional wells will be seen in the production and is a benefit to both the royalty owner and the company.

JIM KAISER: Thank you. Nothing further of this witness at this time, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

MARY QUILLEN: Mr. Chairman.

BUTCH LAMBERT: Ms. Quillen.

MARY QUILLEN: Just a clarification. It looks... when you compare the Nora Exhibit AA with the Oakwood DD, it looks like you are developing the Nora Field the same way that you have done in the Oakwood, is that correct?

FRANK HENDERSON: That's correct. I just included the other exhibits for the Oakwood Field just because we've had additional development there. Just to---

JIM KAISER: To share the experience.

FRANK HENDERSON: Yeah, drive home the experience that we've seen increased density drilling in the adjacent field...in our other fields...developed areas.

MARY QUILLEN: Thank you.

BUTCH LAMBERT: Any further questions?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: We'd ask that the application be approved as submitted, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Approved, no. (Laughs.) Not to approve. That was close, wouldn't it.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. It's approved.

JIM KAISER: Thank you.

DAVID ASBURY: Nice exhibits. Thank you.

BUTCH LAMBERT: The next item on the docket is a petition from Range Resources-Pine Mountain, Inc. for the establishment of a drilling unit and pooling for conventional gas well V-530204, docket number VGOB-10-0216-2677. All parties wishing to testify, please come forward.

TIM SCOTT: Tim Scott, Gus Jansen and Phil Horn for Range Resources-Pine Mountain, Inc.

BUTCH LAMBERT: You may proceed, Mr. Scott.

TIM SCOTT: Thank you.

PHIL HORN

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Horn, would you state your name, by whom you're employed and your job description?

A. My name is Phil Horn. I'm the land manager for Range Resources-Pine Mountain, Inc. and one of my job duties is to see that we get wells permitted and drilled from the land standpoint.

Q. So, you're familiar with this application?

A. Yes, I am.

Q. Okay. So, how many acres are in this unit?

A. 112.69.

Q. So, we're seeking to establish the unit and to pool those parties who are Exhibit B-3, is that right?

A. That's correct.

Q. Do we have any parties listed on Exhibit B-3 that we're going to dismiss today?

A. Yes. I passed out a revised Exhibit. It will be Marine and David Copley.

Q. Have you (inaudible)?

A. Yes, we have.

Q. Okay. Now with regard to the other parties listed on Exhibit B-3, have you attempted to reach agreements with those people as well?

A. Yes, we have. We've contacted people that are known and we've hand delivered a lease in person or either mailed the lease to them at their residence.

Q. As a result of your pooled...your leasing efforts, what percentage of the unit have been leased?

A. 66.89667622%.

Q. (Inaudible)?

A. That's right.

Q. As a result, you've provided Exhibit E and a Exhibit B-3 revised, is that correct?

A. Correct.

Q. And that's what the Board has now. Now,

Mr. Horn, this was kind of a bear unit as far as the title was concerned, is that right?

A. That's right.

Q. Can you tell...kind of give the Board a brief overview of what we've had to do in regards to this unit?

A. Well, we've had...we've had one person reserving the oil and gas in the early 1900s and we've tried and tried and we could not locate them. Then Tract 4, some individuals bought an undivided interest in 1981 and we've confirmed that they have like 31% and the remaining owners are unknown and we just had a hard time trying to determine who owned what.

Q. In this particular case, the information that was provided by the heirs seems consistent with the information of the deeds, is that right?

A. That's correct.

Q. So, we have people who are signing who are named and people who are named that are not signing and people who are not listed owners, people who are listed as owners for whom we could not make any...we can't account for those people, is that right?

A. Correct.

Q. That's why we have those listed as unknown,

is that correct?

A. Correct.

Q. Now, how was notice of this hearing affected?

A. By certified mail and also it got published in the Dickenson Star on January 20, 2010.

Q. And we've provided appropriate publication notice to Mr. Asbury, is that right?

A. Yes, that's correct.

Q. Okay. Again, we talked just a minute ago about some of the parties who were listed on Exhibit B-3. You do have some unknowns, is that right?

A. Yes, we do.

Q. Okay. And, again, would you tell the Board how you tried to reach those individuals?

A. Well, we've...the first thing we do is we checked for wells and the list of heirs and there were known. Then we checked for...we run their name in the index to see if they may have owned other property that would have give us a clue as to who they were and we had no luck there. Then we checked on the grounds to see if any of the people were decedents of these people. We had no luck there. So, basically, you know, after a hundred years we've had no success in finding some of the...all of the owners on Tract

9 and some of the owners on Tract 5.

Q. Well, to be truthful, Mr. Horn, I guess from the title examiner's standpoint, you true, we did have...at least in one situation we had about seventy heirs that we had to try to locate from 1930 to the present, is that right?

A. That's correct.

Q. Because of (inaudible) from instruments that were recorded and, again, to no avail...no luck, is that right?

A. That's correct.

Q. Okay. If you were to reach an agreement with the individuals listed on Exhibit B-3, what would the terms be if you offered these persons?

A. Twenty-five dollars per acre for a five year paid up lease that provides a one-eighth royalty.

Q. Is that a reasonable compensation for a lease in this area?

A. Yes, it is.

Q. And what percentage of the oil and gas estate are you seeking to pool today?

A. 33.103323785.

Q. Again, you initially have some unknowns, is that right?

A. Yes, we do.

Q. We do have an escrow requirement?

A. That's correct.

Q. And what tracts are affected by the escrow?

A. 5 & 9.

Q. And what would be the percentage that would be escrowed?

A. 20.18110156%.

Q. So, you're asking the Board to lease...or to force pool the individuals listed on B-3, is that right?

A. That's correct.

Q. And that Range Resources-Pine Mountain, Inc. be designated the operator, is that right?

A. That's correct.

Q. Now, if elections are made under any Board order that would be entered by this Board, what would be the address for any correspondence regarding that?

A. Range Resources-Pine Mountain, Inc., P. O. Box 2136, Abingdon, Virginia 24212.

Q. And that would be the address for all communications?

A. That's correct.

TIM SCOTT: That's all I have for Mr. Horn.

BUTCH LAMBERT: Any questions from the Board?

MARY QUILLEN: Mr. Chairman, I have just one---

BUTCH LAMBERT: Ms. Quillen.

MARY QUILLEN: ---question. On the B-3 showing in Tract 3 that one of those folks listed as 0% interest.

PHIL HORN: Tract 3 that's a father and a daughter. As you know, they're unleased. So, we credited the father with no interest and the daughter with full interest.

TIM SCOTT: It's a life estate remainderment interest together.

PHIL HORN: If they lease, then they'll tell us how they want us to pay and we will change that.

MARY QUILLEN: Thank you for clarifying that.

BUTCH LAMBERT: Any further questions from the Board?

KATIE DYE: Mr. Chairman.

BUTCH LAMBERT: Mrs. Dye.

KATIE DYE: I noticed in my application that we only have a preliminary plat.

TIM SCOTT: I guess that's right.

PHIL HORN: I don't know how that happened. I've got one signed blue line here. I mean, we could certainly get you original plats. This one is just signed by a surveyor. When we apparently put this together we must have used a plat that was not signed. Is your signed?

BUTCH LAMBERT: Ours is not.

SHARON PIGEON: Ours is not. Our says preliminary plat.

TIM SCOTT: Here is a copy. We can make copies and we will send this to the Board this afternoon.

BUTCH LAMBERT: If Mr. Asbury has it, then he can get it to us.

SHARON PIGEON: He can make us some copies today so we would be able to (inaudible).

BUTCH LAMBERT: Anything further, Mr. Scott?

TIM SCOTT: Nothing from Mr. Horn. But I've got questions for Mr. Jansen.

BUTCH LAMBERT: You proceed.

GUS JANSEN

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

Q. Mr. Jansen, would you please state your name, by whom you're employed and your job description?

A. Gus Jansen. I'm employed by Range Resources-Pine Mountain as manager of geology.

Q. And you also participated in the preparation of this application?

A. Yes, I did.

Q. Are you familiar with the total depth of

the proposed well?

A. Yes, I am. The total depth is 4,531 feet.

Q. And what are the estimated reserves of this unit?

A. 40 million cubic feet of gas.

Q. Are you also familiar with the costs?

A. Yes, I am.

Q. You actually signed the AFE, is that correct?

A. That's correct.

Q. What is the estimated dry hole costs?

A. \$209,558.

Q. And the completed well costs?

A. \$506,227.

Q. And you've provided the AFE with our application, is that right?

A. That's correct.

Q. And you've participated in the preparation, is that correct?

A. That is correct.

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

A. Yes, it does.

Q. In your opinion, would the granting of this

application be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, it would.

TIM SCOTT: That's all I have for Mr. Jansen.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Scott?

TIM SCOTT: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Scott. It's approved.

PHIL HORN: Thank you.

GUS JANSEN: Thank you.

TIM SCOTT: Thank you.

BUTCH LAMBERT: Ladies and gentlemen, we're going to recess until 1:00 o'clock.

(Lunch.)

(Mary Quillen does not return after lunch.)

BUTCH LAMBERT: Ladies and gentlemen, it's time for us to resume. If you'll please take your seats. The next item on our docket is the Board will receive a status report from Robinson, Farmer & Cox Accounting Firm performing the audit of the Virginia Gas and Oil Board Escrow Account. So, if you gentlemen would please come forward. If you'll come up and state your name for the records, please.

CORBIN STONE: My name is Corbin Stone from Robinson, Farmer, Cox & Associates. This is Steve Jacobs also with Robinson, Farmer, Cox & Associates. Really today our purpose for being here is to go over our approach and our sampling methodology for the pooling accounts...pooling units that we've planned as part of the audit. Probably the largest portion of the audit. Steve is going to talk a little about the sampling methodology and how we're going to divide the population into different strata and then I'm going to talk a little bit about what we've decided...which units that we're going to audit and how we're going to go out and gather information so we can determine that the

royalty payments that you're receiving are, in fact, the royalty payments that should be made and accurate. I'll start with...Steve come up and talk a little bit about sampling.

STEVE JACOBS: We're starting off with 765 escrow accounts where we had 725. But on December 31, 2009 we had 765 accounts of escrow of almost 25 million dollars in escrow. Here is the way we can approach taking our sampling. If you'd go back to that slide again for a second, Corbin. We've just numbered the 765 accounts 1 through 765 and randomly select 35 as you asked and come up with probably a fair representative sample. The second way, when you start to look at the accounts a little bit it falls easily into three groupings, segments or strata, if you will. I'm old and I've got tri-focals, but is that in focus?

BRUCE PRATHER: That's what I was going to ask.

STEVE JACOBS: I can't really tell if that's in focus or not because I want to go through some of those numbers a little bit.

DAVID ASBURY: Did that help?

BUTCH LAMBERT: A little bit. But it's still---.

STEVE JACOBS: The 765 escrow accounts fall quickly and easily into three definable groups or stratas. Group

one and two represent 719. Two operators represent 719 of the 765 accounts. Then we have probably about 13, which would be CNX and Equitable. We tried to color code them. So, you can see the number of accounts. Then we have about 13 or 14 operators covering 46 accounts. You've got those 46 accounts that represent \$451,000 in balances. We've got CNX with its 421 accounts of 19 and a half million dollars. Then, 298 Equitable accounts of about almost 5 million dollars. So, you can see the distribution there. What you would then do based on the proportion of the accounts, you would pull that proportionate of the 35 that we're going to sample so the 46 accounts represent about 6% of our population of accounts. We'd pull two accounts at random from the 46. We've got 55%. CNX represents about 55% of the accounts. We would pull 19 of that 35 would be from CNX. The same with Equitable, we'd pull 14 and a half.

(Microphones makes a noise.)

STEVE JACOBS: I didn't do that.

(Laughs.)

STEVE JACOBS: Which gives us our 35 accounts. That's one way of doing it. By the same token you could break it by those companies. You could look at balances. But looking at strictly the accounts and pull...you pull basically that...a random sample of 46 accounts you would

pull 2 at random. Of 421 accounts, you would pull 19 at random. 298 accounts, you would pull 14 at random. So, you would get a random selection within each one of the groupings. Another way of looking at it is to look at the balances. Just because a little more arbitrary trying to define strata this way, how many did...when we look at the companies it fell easily into three groupings because we had two large and everyone else. When we start looking at balances, how many do we define and how many strata do we have? One of the limit...the limits from X dollar to X dollar. What defines each one of the strata when we look at it that way? How many segments do we have? What are the balance limits do we have? Do we try and equalize the number of accounts? Do we try and equalize the balance and the strata and what have you? But as an example, we define here...defined here accounts of less than \$5,000. The ending balance at December 31, 2009 of less than \$5,000. 334 of our 765 accounts have balances less than \$5,000 for a grand total of almost 25 million dollars of \$342,000. That's 44% of our accounts. The balances between 5,000 and 50,000 there are 299...299 accounts. About 39% representing 6...5.7 million dollars. Then accounts between 50,000 and million represent the balance of the accounts. 17% of the accounts represent almost 19 million dollars of that 25

million dollars that you have in escrow. So, in terms of numbers we're loaded down...we're heavily loaded at the small account side in terms of actual balances...the active balance we're loaded heavily at the top end. Now, that's one way of looking at it based on, again, the proportions of the account. We would pull 15 accounts at less than \$5,000, 14 accounts between 5 and 50 and 6 accounts 50 and a million. The range of our account balances in the population from minus 11...we have one account that's negative...negative \$11,000 to about \$960,000 is the largest account balance we have. So, we've got a million dollar range. So, looking at the balances is one way. A further way of looking at it is to go back to that first slide that we had on segments based on company and further subdivide those companies based on balances. So, we had a sub-strata within the original strata. So, we've got of that original 46 from the all other companies, 27 of them have balances of less than \$4,000 and 19 of them have balances between 4,000 and a 150,000. They're out here on the end. You can see the total aggregate balance for those account (inaudible). CNX, the green...the three green segments of less than 5,000, 5 to 50 and 50 to a million. You can see the accounts, 155 to 170 and 96 and then the account balances...the aggregate balances. And, again, in terms of

Equitable and the operations, less than 5, 5 to 50 and 50 to a million. You can see the account, 150, 114 and 34 and represent then the aggregate balances. We would then take, again, the proportions of the total times 35 accounts that you want us to analyze and we would pull 1 from all the others less than \$4,000, 1 from all the others between 4 and a 150. CNX we would pull 7 accounts less than \$5,000, 8 accounts between 5 and 50 and 4 accounts between 50 and a million. Equitable we would pull 7 between 0 to 5, 5 to 50 we would pull 5 and we would pull 2 from the higher account balances for a total of 35 accounts. Just as kind of a review of the way we would approach it. You start with your population and try and stratify the population some reasonable method of segmented the population and come up with statistics. You come up with a number that you would sample from each one of those segments. Corbin, if you click on the bottom and come up with you listing, of what you would sample. You can see here this is...we're not saying these are the ones that we're going to pick. This is just a random selection that was generated. We have strata of all others. We have 2 accounts. Their accounts numbers, the current balances and it kind of went off the screen of I think 39 or almost \$40,000 of account balances (inaudible). About \$40,000. The 15...I think 15 CNX would be the

accounts and these would be the accounts (inaudible) and make a random selection and the random selection is going to be by the computer boom, boom and it goes back to the population and pulls up the account data and then we have the Equitable accounts. This is what we start our verifying the account balance from. Just like that. Following procedures that we just went through. And in this case, we're pulling about 10% of the total value in the...of the population. Are there any questions on...that's how we get to the list of what we're going to verify. Corbin, will kind of take you through... once we get to that list...what we do once we get the list.

CORBIN STONE: Exactly. Clearly, we started...if you ever want to kind of start, what you want to present at the end of the day and then kind of get your methodology in terms of data. What do you want to present data today? Then kind of define what you do in your process. The first thing that we're going to have to do in the audit process is review the pooling orders to determine the percentage of the drilling unit subjected to the pooling orders. So, we take the acres in the drilling unit, the lease status and calculate the percentage of that drilling unit that's subjected to the pooling order. I also happened to review the Code of Virginia in looking at that in terms of the

pooling order. In certain agreements, we have different options that the land holders can choose. So, what option did they choose? Usually they have about three options in the agreements. Step two is to look at well head production. We've got to move some impurities from the gas and look at compression ratios to determine what is the quality of gas or saleable product that we have coming out of these wells. It's not necessarily just going to be the well head production. It's going to be some of the out less than that. But at the end of the day, how much was actually produced? How much saleable gas was produced by each unit. Then we're going to have to determine what is the average selling price that the various companies are selling this for. You know, some of them may have market...may sell on the market and the market price for it that day. Some of may have contracts, long-term contracts or even short-term contracts that specify what they're going to sell it for. But we're going to have to determine what is their average unit selling price. So, we don't want a company, you know, to...allocated profits or allocable shares to the land holders. You don't want them to take their lowest selling price and based on that subtract costs and then allocate net income on that unit. You want them to take an average of their selling prices. That's really the fair way to do it.

So, we're going to have to get the volume of methane sold by that company or by that unit. We may have companies that are broken down into operating units and we can get...hopefully, we can get that data for operating units in the area the gross revenue they generated from methane sales. I think volume of methane sold. The company may use some of that methane. So, we want to look at what was sold and the gross revenue from those sales. We don't want to look at what was produced and available for sale but what was actually sold because like I said the companies may use that in some production process elsewhere. They're not going to sell it to themselves. So, we're going to calculate the average selling price of methane. Step four, we're going to go to those companies and determine what costs are they applying against that gross revenue they're generating. So, if you've got an interest in the well, what cost are you being charged...operating costs and is that in accordance with the pooling agreement in accordance with the Code of Virginia? Also, look at what have Court cases said about these costs. What have the Courts allowed these companies to charge? So, we get some guidance from that and come back to you and let you know what costs are being charged and what the Code said may be charged, what the pooling order says and what the Court cases have provided to

us. The information...go back for just a second. The information that obviously the post-production costs by category within applicable operating divisions of the companies. The cost allocation sheets, these costs are going to be allocated. That's another point to make. They're a couple of ways to allocate costs. We would probably say you need to allocate it based on the amount of methane produced by the wells. You could just say we're going to allocate costs equally to each well. A \$100...we have a 1,000 to allocate in 10 wells. So, each well it's a \$100 allocated to it. But it's part of the production from methane, we would probably argue that it needs to be allocated based on the raw production of each well. So, if this well produced 90% of the methane, then this well probably ought to receive 90% of the post production costs because ultimately that's what has created kind of the problem. Go ahead. Really step number five is to put all of that information together and take the percentage of the drilling unit subjected to the pooling order times the quantity of methane produced times the selling price per unit minus the allowable cost per unit and that's going to give us our times of royalty percentage. That's going to give us our audited royalty payment. In other words, that's going to give us what should have been placed into the

escrow account. If you can imagine going out to these companies and looking at 35 units over a 9 year period with 12 months in the year, it's going to be quite bit of data. Quite a massive spreadsheet by the time we're done our series of spreadsheets. We've got to use that information...it's not just enough to say we've gone out and we've audited these 35 units and we've found that this unit overpaid and this unit underpaid and that's one thing. We've got to take a comparison of that audited royalty amount to the actual amount remitted and determine who got over or underpayment. You may have cases where expenses that could have been charged were charged. These companies just forgot to do that. So, you could have a case where you actually have an overpayment on a royalty. For statistical purposes, the data will be converted and the percentage over or underpaid for each well (inaudible). Like I said, the results...the results are converted to the percentage over or underpaid for each well and the data is evaluated to determine the average under or over payment, standard deviation or the over or under payments and the estimated range of over or under payments within (inaudible)...for the total population and then the population within each strata. We may go to one company and find out they're doing it right. These numbers are right on. They're in strata one.

We're calculating exactly what they're calculating or very close to it. We may go to another company and say these numbers aren't right. We're now calculating what they're calculating. So, we want to do it over the total population and then the population within each strata. The average for this company, the overage number is very low. It's very close. The average for this one is very high. The standard deviation is very high for this company. We don't know what we're going to find yet. Within the confidence...going...really going forward, the reason you do a sample is so you can infer items about the entire population. But going forward with the confidence intervals for each strata of the population and the population as a whole, you can determine the anticipated benefit of auditing additional units by company and escrow account balance and you can even take it a step further and look at it by production levels for the wells. You going to create thresholds or you're going to establish thresholds to select pooling units for future audits. You might determine that well producing a \$1,000 escrow payment over the course of the year you can't justify auditing that well because the cost of auditing is just too high in relation to what's being paid. Based on the sample, maybe we're going to tell you that well there's a likelihood that \$1,100 should have

been deposited to that well over the course of the year. It's going to cost more than a \$100 to go to find that out. So, you're going to create thresholds to determine which units should be audited in the future. The models can also be...we can also develop models to estimated the royalty payment for each unit based on well depth production within each strata. So, once we determine a company's cost structure and how they're allocating costs, we're going to be able to develop a formula based on this well head production, this percent ownership or unclaimed ownership or unparticipated or non-participating owners times this company's ratio indicates that this well should be audited or it shouldn't be audited or we're going to be able to predict what the royalty payments should be based on sample data. It's not going to be perfect, but it seems to be a good idea of which one should be audited further and which ones should be left alone. Audit process documentation has been provided to the Gas and oil Board. Really, the methodologies used for each...used by each company being audited...each one of these companies is going to have a different...a different process...accounting process for allocating costs and determine which costs are allocable and which ones aren't. They're going to be set up completely different. So, we're going to detail methodologies each

company uses. The audit contacts each company and the names of documents cutoff used for the determination of royalty payments and, of course, our audit techniques and methodologies. And this becomes very important and I was talking to Steve earlier because when you're looking at 14 accounts for 1 company and 19 accounts for another or 15 accounts for another the 2 models that are going to developed are going to look different because those companies aren't using the same accounting system or the same accounting structure. So, you're going to have really different models that come out of that. Then those audit models can be carried forward the next time you go to those companies. It can't be...it can't be crossed up though. It can't be used to interchange them. The financial statement audit type, how does all of this data tie into your financial statements. In the past, the financial statement audits have been if the company said that they sent you a royalty payment of \$10 and you received a royalty payment of \$10 that was accepted. But the financial statements based on those external confirmation. What this is going to do is it's either going to be receivable, an amount due from these companies, or payable. They've overpaid. We don't know. It's premature at this point to say which. But the data can be used to predict or estimate that receivable payment

within a range...within a 95% confidence range or within a 99% confidence range. Based on that, you're going to determine whether you have an audit with a qualified opinion or a clean opinion. We may find that there's a receivable...an estimated receivable of 30 million dollars, but the range is million dollars. It could be 2 or it could be 4. So, you have to qualify that in the audit report to say we booked the 3 million dollar receivable but the range could likely be between 2 and 4 and we've booked the average or the anticipated. But we're going to provide you with the conclusions based on that data and all of other materials for that matter. At the end of the day, if this is the slide that you start on when you're working up a presentation, what do we want to know? We want to know do we have over or under reported royalties. What is the range of those over or under reported royalties? Again, within a confidence level, we're going to be able to give you that. At what thresholds can we justify an audit of individual wells? Like I said, if the cost of gathering this data and it's...if you think about going to a company and finding out they're average selling price per unit of methane, then figuring out the allocated costs of production appropriately to that well. The cost of auditing an individual well is pretty expensive. But at what threshold...what level do we

need to be able to justify the audit of the individual wells? And then some long-term strategies and computer some modeling based on this production level, based on this percentage of the unit being subjected to the pooling order and we estimate...based on this company's data what they provided us in this audit of these thirty-five wells we estimate our royalty payment should be \$1800. We received \$800. We go back to the company and this is the data that we have, can you check your figures and make sure this royalty payment shouldn't be a little bit higher. So, the computer modeling, I think will be key. It will allow you to model you to monitor month by month or annually if you like what these wells are generating in dollars compared to what they're generating in methane that's subjected to a pooling order. Then recommendations, based on this, you're probably going to have to recommend changes to the pooling order. Do we want to tighten up some of the terms of the Board orders as far as what is an allowable cost? By the time we're done with this, we're going to have...we're going to know every cost that these companies are posting to this books in detail. Do you want to come up with internal versus external audit? Maybe (inaudible) going forward at the top the 10% producing wells, the highest producing wells. Maybe you can do that externally because it's not

going to take that much time. Maybe it doesn't justify an internal department to do it. But if you do find that we've got a lot of non-compliance, then I think it's prudent to look at an internal audit function to look at all of these wells. Then legislative changes. Do we...if you're going through the Code of Virginia and looking at the pooling orders and auditing these thirty-five accounts or we can come back to you and say, you know, we really need some changes to the legislation to tighten up some of this stuff because it is a relatively new legislation. It hasn't been out there but so long. So, those are, at the end of the day, what we want to bring back to the Board for you to use going forward and then hopefully to make your jobs...your jobs a little easier. I'll stop there and see if you have any questions about the audit process or about Steve's sampling.

BILL HARRIS: I don't know, do we---?

BUTCH LAMBERT: Yeah, we're going to open it for questions. Yes, sir.

BILL HARRIS: Okay. Let me...first of all, I think you all ought to be commended the design of this. I think it seems to be very good. I do have a couple of questions and a comment. A lot of this is based on something that we've talked about as a Board these allowable deductions and

that still we're wrestling with that. Hopefully, you'll be able to get some...a little more concrete information that we've been able to generate in that regard. But if you can, that will be great because I think that will kind of give us an idea of what the bottom line is. A lot of citizens will tell you they don't..., you know, they want to know why this is being deducted and how it's calculated and whatever. I think what you all proposing would go a long way to doing that. The other thing I do have is I know that when we wrote the RFP we asked for 35 accounts to be audited. In your experience with the number of accounts and the amount of money, is that a realistic number? I don't know if that's...can be changed or reduced or whatever---

CORBIN STONE: It possibly could. I think---

BILL HARRIS: ---or increase.

CORBIN STONE: Yeah. Once you get into it and you find out what standard deviations you're looking at because at the end of the day you're going to estimate either overpayments or under payments within a confidence interval.

BILL HARRIS: Yes.

CORBIN STONE: And that standard deviation is going to drive that confidence interval. So, if we find...if we go to company A and we start auditing and we audit through five accounts and we find that through methodology that all

of their accounts is the exact same---.

BILL HARRIS: Yeah, okay...that's---.

CORBIN STONE: ---and they can document that and shows, then I don't think you need to continue forward auditing additional accounts at that company. But I think it's probably going to be a company by company basis.

BILL HARRIS: So---.

STEVE JACOBS: We don't want to do any less than 30.

BILL HARRIS: Any less than 30?

STEVE JACOBS: Right. 35 was a good number. But 30 is the bottom...absolute bottom.

BILL HARRIS: Okay.

CORBIN STONE: The other---.

STEVE JACOBS: To make your sample representative---.

BILL HARRIS: Valid, yes.

CORBIN STONE: The other thing that...you've got this I have a gob in which a unit could start out on its own and then later it becomes far enough...a larger unit if you will. If one of those is selected, a sample size...in the sample, then you...it kind of expands the sample on its own. So, you can have a unit that starts out as an individual unit that falls into a gob, you may as well at that point

since all of the costs are going to be allocated to the gob now instead of the instead of the individual unit, you may as well audit all of the units in that gob. So, your sample, you may start with one and then once you get the gob you may have 25.

STEVE JACOBS: Beyond that, when we look at those 35 accounts, you may have 4 gobs and you may have 6 accounts that are owned 27 different ways.

CORBIN STONE: Right.

STEVE JACOBS: So, it's...35 is a number.

BILL HARRIS: Yes. To at least to begin with, but this may explode to much larger numbers by the time you---

CORBIN STONE: And it could be that you start with the population of 35, as you hit a gob you may have a population of a 130 by the time you're done. But sure, the methodology...if you can prove that the methodology the companies are using is consistent across all units, again, sure, I think you can prove that out. And then you could even take that a step further and prove...go back to what's being produced for units that weren't part of the sample times the percent that was pooled and then you would have a ratio of---

BILL HARRIS: You could do spot checks to see what's---

CORBIN STONE: Right. Exactly.

BILL HARRIS: ---happening.

CORBIN STONE: See you could increase your sample a little bit by doing that and not actually doing heavy field time.

BILL HARRIS: Yeah. One last thing, you gave us three different examples of---

CORBIN STONE: The strata.

BILL HARRIS: ---the strata and I...I don't if we're going to recommend one, but I think the third one, I think, to me makes more sense since where you actually go in and not just do it per company, but go in and look at the different amounts. To me, that would be a little more all inclusive or whatever. That's my personal opinion. Not being a statistician or anything. But I do have a question about random. When you go in and if there's an account with zero activity or zero balance even...well, I wouldn't think you would have too many with a zero balance, but you could have...well, you have negative balances. So, you could have zero.

STEVE JACOBS: (Inaudible) 11 cents and things like that.

BILL HARRIS: Yeah. Would you still do that or is that just keeping it random to, you know, or is there a

criteria with the random that you're saying, okay, it's random, but if this happens I'll go to another...you know, go pick another one?

CORBIN STONE: Well, we could do that. We could exclude...we look to the Board. If you want to exclude that's one below a certain dollar amount. In the instance of the 11 cents that has been positive, that may be...maybe it's supposed to have---

BILL HARRIS: Well, yeah, that's what I'm saying. The lower accounts may be the ones you do want because it may be something pretty significant going on to causes them to low and maybe they shouldn't be low.

CORBIN STONE: Exactly. So, I probably wouldn't throw it out just because it has a low balance unless we can look at we see that this well is just not...we can tell that---

BILL HARRIS: Yeah. Yeah.

CORBIN STONE: ---those levels warrant a low balance, I should say.

BILL HARRIS: Thank you.

BRUCE PRATHER: I have a question. What happens---
?

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: ---to your evaluation if in your

random sampling you pick 5 or 6 of these gob units, which would be maybe 25 or 30 wells per unit? I mean, how would that affect you? It looks to me like it would somehow or other screw up your sampling.

CORBIN STONE: Well, it expands the sample. It just means that--.

STEVE JACOBS: Just more work.

BRUCE PRATHER: How many gob units do we have? Do you know?

DAVID ASBURY: 16.

BRUCE PRATHER: 16.

STEVE JACOBS: In the escrow account?

DAVID ASBURY: Yes.

BRUCE PRATHER: Yeah.

STEVE JACOBS: It would just be bad luck to pick them.

BRUCE PRATHER: I think...you know, I think you should take that into account.

CORBIN STONE: You would take that into account. What...at the end of the day though the larger the sample the more representative it's going to be for the population.

BRUCE PRATHER: Exactly.

CORBIN STONE: So, if you do step into one of these gob then I think you've...you've probably improved the

reliability of the sample.

BILL HARRIS: And I would really want to see at least one of these just to see the process that you would have to go through---

BRUCE PRATHER: Yeah.

BILL HARRIS: ---once that starts off as individual wells and then going into the gob because that would---

BRUCE PRATHER: Yeah, you might consider that as one of your criteria, one of these gob wells.

STEVE JACOBS: We could keep varying the sample until we got one gob unit, we've got two or three.

(Laughs.)

BILL HARRIS: But I think the technology...not the technology, but the process by which those were all calculated kind of varies along the way and that would be good to see how...you know, maybe I---

STEVE JACOBS: Yeah, that's right. When I showed that list on the Board, that's not...just by doing the model just like saying recalculate that list that it generates each time. There maybe (inaudible). Freeze that one and take it out and put it on the bottom.

BILL HARRIS: Yeah, let me ask David a question about gob units. Are gob units distributed fairly equally

over those three...I mean, those three...I know one was a whole group of companies. But, in other words, we have Equitable and---

DAVID ASBURY: CNX has the gob units associated with the underground mining.

BILL HARRIS: So, they're the only ones that would have---?

DAVID ASBURY: All 16 are CNX and with your stratification the chances are you're going to hit 4 of those anyway within your sampling. So, 1 of the 4 of your 35 could be the larger gob units. I think it's important when we talked and had our briefing, the number 35 is a number. We talked that we wanted these gentlemen to do their statistics on the whole escrow account in such a way that they are following A.I.C.P.A. Standards.

BILL HARRIS: Yeah. That's why I asked the question.

DAVID ASBURY: If the number is 50, that's what it needs to be. If it's 10, that's what it needs to be. But with your presentation, you have the capability to select the right number for your sampling population. 35 is just a number.

CORBIN STONE: And that gets back...that's where the financial statement all ties in. Once you get the

strata, like I said, you're going to project the overage or under in the royalty payments. That's going to impact the financial statements. I said you could have qualified or an unqualified opinion. A non-qualified opinion means that we can project that the royalty payments have been...were underpaid by 3 million dollars within a range of a \$100,000. So, if we can project it at that level, we would have an unqualified opinion with no disclosure on the financial statements or in no financial statements. The standard deviation is we can project it's 3 million dollars within a range of 2 million either way. Then you've got a qualified opinion of the audit or we'll come back and you do you want to continue with the sample or do you want to start looking at the larger accounts and work your way down or do you want to accept a qualified opinion of the audit to say we think we the receivable is 3 million but it could be 5 or it could be 1.

BUTCH LAMBERT: Any other questions or comments from the Board?

(No audible response.)

BUTCH LAMBERT: I know last month, David, you had three or four questions for the Board from the firm that we didn't act on.

DAVID ASBURY: That's correct.

BUTCH LAMBERT: We were going to wait until they came this month to be able to ask those questions.

DAVID ASBURY: Yes, sir.

BUTCH LAMBERT: And they dealt with travel expense.

DAVID ASBURY: Yes, sir.

BUTCH LAMBERT: Okay. I think this is the time we could take those up. I know we had some questions that we'd like to ask.

DAVID ASBURY: The travel expenses, as I understood, a portion of what their audits would be is to travel to the accounting groups in Pennsylvania, if need be, and that overnight expense and travel expense was not part of your original RFP. You had asked the Board to consideration to allow for that travel.

CORBIN STONE: I think in going through and time to developing our model, we felt like we needed to document the process that these companies use and not simply request that they send us data and to take that data and put it into a model and maybe spending the day with them. I don't think it's going to be that much time, but I the document...the process they use, they instruments they pull their data from and the files that are generating this data, who is in charge of it and document that process for the Board. So, Steve and I both felt like we're probably going to spend a

day or two going through their processes with them on site at their corporate offices. Their data may be here. I'm not sure. But we felt like we were going to have to spend some time there.

DAVID ASBURY: And was their an estimate of that? CO
those no... there's no markup. So, you know, the hotel room for two nights.

BRUCE PRATHER: Aren't two of your major companies in the Pittsburgh area?

CORBIN STONE: I think one is in Philadelphia. Is that?

DAVID ASBURY: One is in Pittsburgh and one is Philadelphia.

BRUCE PRATHER: Is CNX in Philadelphia?

KATIE DYE: In Pittsburgh.

DAVID ASBURY: Pittsburgh.

BRUCE PRATHER: Yeah. Equitable is in Pittsburgh.

DAVID ASBURY: Maybe both are in Pittsburgh.

BRUCE PRATHER: Yeah. That's what I was thinking. So, see, that might be...we could kill to birds---

CORBIN STONE: We might be able to do it all in one trip.

BRUCE PRATHER: Yeah.

CORBIN STONE: Yeah.

BRUCE PRATHER: Get it all in one trip. That's what I was thinking.

BUTCH LAMBERT: I'll just remind the Board that in these discussions that the contract hasn't been officially signed yet and we were waiting on today's meeting so we could ask these questions about travel costs. Also, I think there was a question on extending on the date.

DAVID ASBURY: Yes, sir. The discussion was that because the original RFP anticipated transferring at the end of 2009 and it didn't occur actually until February 2, 2010 that we ask you folks to extend the audit period through the final transfer between Wachovia and Wells Fargo and First Bank & Trust.

CORBIN STONE: That seems logical to me. And there's no additional costs for that. You can do an audit for any period of time of a financial statement audit. So, moving it a month...it makes a lot more sense to do it at the break in trust.

BUTCH LAMBERT: Okay. And was there...there was one other question?

DAVID ASBURY: The 35 units.

BUTCH LAMBERT: Yeah, the number of units. So, we're okay with that.

STEVE JACOBS: At this point, I think 35 is good.

We were more concerned with the process and the procedure and developing it. I think you mentioned, sir, we can plug in a number. We can change that 35 to 50 as the number of accounts that we have to audit. How was the strata (inaudible)? Those things can change for us. We may end up of those 46...all others, we might end up doing three or four of those of that larger number.

BUTCH LAMBERT: Okay.

STEVE JACOBS: But (inaudible).

CORBIN STONE: Generally, what we think we're going to find is that companies are going to be fairly consistent in their treatment. We don't think they're going to treat this well much differently than they treat this one within each company...within each company. The treatment between companies is going to vary, but they're going to treat the wells within these companies in a similar matter. At least that's what we hope to find. We hope that we don't have to reevaluate the model for each well.

STEVE JACOBS: Yeah, we hope the cost...it's this much production, so we treat cost this way, and this much production we treat costs...we don't want to find something like that.

BRUCE PRATHER: I have a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: How long do you think it would take you to establish whether there is 35 or 50 units that you would audit?

CORBIN STONE: Well, I think you would first start with the smaller sample size.

BRUCE PRATHER: Right.

CORBIN STONE: And then determine what your procedure deviation...what your...what your range is. Again, like we said, we think the companies are going to be fairly consistent in their treatment. So, that means that we may find we've got under payments of 50% and it could go up to 51 or 49 and so we've got a very low standard deviation. So, you wouldn't expand the sample size there because you feel very confident they're within that range. It really depends on once we find what that...what kind of deviation that we have within each company. But that's going to answer the question of whether it's expanded or not. And if you find that you've got the correct deviation, maybe you just want to start looking at the larger accounts. If you---

BRUCE PRATHER: Yeah.

CORBIN STONE: ---find that you've got significant non-compliance at one of these companies or all of them, then maybe you just want to start with the larger accounts

and working your way down because at that point it's not really a random sample anymore. It's a compliance. You're out of compliance and we're going to find out how much you owe us.

BRUCE PRATHER: Okay.

STEVE JACOBS: But at some point, we will let you know that we've gone---.

BRUCE PRATHER: You've reached that---.

STEVE JACOBS: The random selection has taken us this far---.

BRUCE PRATHER: You've reached that step then.

STEVE JACOBS: ---you need to do something.

BRUCE PRATHER: Okay.

DAVID ASBURY: And the updates to the Board. We talked about when you anticipate how that process would work.

CORBIN STONE: We really anticipated, I think, every 60 days is what we recommended that we would have an update to the Board. Initially, once we start requesting this data and trying to set up meetings, I don't think we're going to have anything for you in 30 days by the time we meet the folks from these company. So, we felt like 60 days and then you may want a report every month after that once we really start crunching numbers.

STEVE JACOBS: And it stop snowing by then.

(Laughs.)

CORBIN STONE: Hopefully.

BUTCH LAMBERT: Any other questions from the Board?

BILL HARRIS: Well, can I---?

KATIE DYE: I just

BILL HARRIS: --- just make a comment? Oh, I'm
sorry.

KATIE DYE: Go ahead, Mr. Harris.

BILL HARRIS: No, no, no, go ahead.

KATIE DYE: I just have a comment on the travel
expenses...you know, concerning that. I think instead of
actual, you know, would it be possible to limit those.

CORBIN STONE: We can. If you want to limit those
to state per diems--.

KATIE DYE: Within a certain limit?

CORBIN STONE: Yeah, absolutely. I'm fairly cheap.

KATIE DYE: But see we don't know that.

SHARON PIGEON: We're glad to hear that because
we're looking for that.

STEVE JACOBS: I've been his partner for too long.
He's cheap.

CORBIN STONE: Yeah. If you want to limit those to
the state per diems, that's...I think they do it by region

or whatever you'd like. We're certainly open to that.

KATIE DYE: State per diems?

CORBIN STONE: That will be fine.

SHARON PIGEON: We're not used to actual costs here in the state government. We never get to do that.

KATIE DYE: In this economy that might give us a heart attack.

CORBIN STONE: At one point, I did an evaluation of our office work should we go state per diem. I find out that I was sufficiently cheap enough---

SHARON PIGEON: Unless you get hit by a truck, we want to make sure we've got control of him.

(Laughs.)

BUTCH LAMBERT: Okay. Any other issues that we need to take up with these folks?

(No audible response.)

BUTCH LAMBERT: I guess, we'll need...before I can sign that contract, we need to...we'll need a motion on going ahead and making those amendments to the contract on extending the date through January of this year and allowing travel expenses not to exceed the state per diem.

BILL HARRIS: So moved.

BUTCH LAMBERT: I have a motion. Do I have a second?

BRUCE PRATHER: I'll second it.

BUTCH LAMBERT: I have a second. Any further discussion?

(No audible response.)

BUTCH LAMBERT: All those in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, gentlemen. We'll...I'll make those adjustments to the contract and it will be signed this week and we'll get the copy back to you. Mr. Harris.

BILL HARRIS: Just one last comment. When we first started this process one of the things I think that concerned me and several people on the Board is the level of...that the audit would entail. Because we get a lot of...a lot of times when there are distributions we will get testimony that, well, we sent \$30,000 to the bank and the bank showed \$30,000 was deposited. I think several of us were hoping that it would be...it would maybe go beyond that, you know. I think what you all have proposed, if you are able to accomplish this is probably more in line where I would like to go with this to find out if the right amount is \$30,000 to begin with. I'm very pleased to hear that.

STEVE JACOBS: The idea is to give you a level of comfort that if it shows---

BRUCE PRATHER: Yeah,

STEVE JACOBS: ---\$30,000 you know it's \$30,000 plus or minus a little bit and it's not---

BILL HARRIS: Yeah.

STEVE JACOBS: ---a material little bit. So, that's what we intend to do.

BILL HARRIS: Thank you. Thank you.

BUTCH LAMBERT: Thank you, gentlemen. We appreciate you taken the time to come down and be with us.

STEVE JACOBS: We appreciate it.

DAVID ASBURY: Thank you both.

BUTCH LAMBERT: Excuse me, Mr. Stone, is it possible for the Board to get a copy of your presentation?

CORBIN STONE: Yes.

BUTCH LAMBERT: Could you email that to---?

CORBIN STONE: I'll email it. Yes, sir.

BUTCH LAMBERT: Okay. Thank you. The next item on the agenda is item twenty-six. The Board will receive a status report from First Bank & Trust, the escrow agent for the Virginia Gas and Oil Board escrow account. Thank you, folks. Sorry we couldn't have better weather for you to drive up today.

LETON HARDING: I was in Stauton, Mr. Chairman, last Thursday and Friday.

BUTCH LAMBERT: Oh.

BILL HARRIS: And you're glad to be here.

LETON HARDING: Glad to be here. I am just glad to be home.

BUTCH LAMBERT: State your names for the record, please.

LETON HARDING: My name is Leton Harding, Executive Vice President of First Bank & Trust Company.

DEBBIE DAVIS: Debbie Davis, Trust officer with the Trust Investment Department.

KAREN MCDONALD: And Karen McDonald, Trust Investment Officer with the Wealth Management Group.

BUTCH LAMBERT: Thank you all for coming today. Go ahead.

LETON HARDING: Thank you, Mr. Chairman, and members of the Board and staff. We have provided to you again today a general outline of our remarks and presentations. It's my understanding also, Ms. Davis has provided some additional work papers relating to the well accounts and also some items in the package with that. Being mindful of the time of the Board and your focus today primarily on the operations and the setup of Ms. Davis and,

again, we would just say a few things. In terms of the information provided therein relating to the Investment Policy Draft, this is simply, again, the same information that we provided to the Board and staff in the previous meetings. We just wanted to be mindful and keep that in front of you. As we said there's no urgency. The Board has pretty much directed us as to their wishes. I thought, Mr. Chairman, if you don't mind, there is not a significant investment update, but we would like to maybe first update the Board in terms of just general changes, if any, in terms of the investment environment and then focus the majority of our time with you today on the work of Ms. Davis and the staff have been undertaken relating to the specific wells and the unit and the reporting process.

BUTCH LAMBERT: Okay.

KAREN MCDONALD: If you want to turn to page eight, we have page numbers this time.

(Laughs.)

KAREN MCDONALD: There have really been no particular changes to the investment policy scenarios that we're proposing. The first one still has us in the first quarter and I've increased the dollars to 25 million. We had been using 24. We're still showing the 25 basis points or a quarter of a percent. We will continue in this mode

until the Board directs us otherwise. It's the same scenario as the prior meetings. There really have not been any significant changes and fixed income rates return and CD yields and money market rates or commercial paper rates. We still feel that what we're offering through First Bank, the CEDARS rates, and the current quarter of a basis points is better than any federated rates that you'll find with...plus we have the FDIC insurance provided. So, I really don't want to take up a lot of the Board's time on the investment side. It's the same...the second half of the presentation are the same fixed income instruments that we've presented before. There really has not been an improvement in the long-term interest rate especially that five year period that you are limiting as far as the alternate investments. So, if you have any questions regarding investments, I'd be happy to answer them.

BRUCE PRATHER: There hasn't been any decrease in the rate has there?

KAREN MCDONALD: No, there really hasn't been a decrease. There's...on page one on the daily Treasury Bill rates, the only increase is if you look at February the 10th on the 52 week, the very far right-hand corner, the coupon equivalent rate for U. S. Treasury Bills, this requires a 52 week commitment is earning 38 basis points. But, no, sir,

not a significant decline. We're more and more attentive to the quality issues of the institutions presenting the CDs or the corporation notes and just...are not encouraged to take extra risk for any increase deterrence.

BRUCE PRATHER: Thank you.

LETON HARDING: Mr. Chairman, I would just note one other item. We've shared with the Board previously that there's pending legislation in the Virginia General Assembly. I think it's House Bill 284, which would expand the opportunity for public entities or other government groups to utilize beyond simply CDs, other reciprocal insurance products, which would basically mean that to the manner to how we would provide the 50 million dollars in FDIC insurance on CDs that at some point we will be able to maybe to offer enhanced money market product. From my understanding of the last actions to that Bill, it was passed by the House unanimously and now it has moved on to the Senate. So, if that continues then in addition to certificate of deposit, which we could offer enhanced FDIC coverage. Once this legislation passes I suspect again that money market accounts or other things which will be even more liquid than short-term. Even certificates would be available to the Board or to the public entities.

BUTCH LAMBERT: Okay.

LETON HARDING: With that, Mr. Chairman, Ms. Davis has been doing a lot, a lot of work. I visited with her. She even asked me for an extra file cabinet. I asked her why boxes wouldn't do. But she has been doing a lot of work and she's here today to share with you that that information and also answer any questions that the Board and the staff has for her.

DEBBIE DAVIS: If you'll note the legal size landscape spreadsheet, I set and worked with David and Diane and made sure the columns that they needed information on was broke down correctly such as the income and the fees. That way you can see it distinguishing between the two. On page twenty-one, you'll see all of the totals of each of the columns of moneys received in two different wires from Wachovia. Of course, there has been no moneys received for the working interest deposits. The money received in royalty deposits from each of the producers. The income earned during the month of January and I will make a note on our fees, on our system we run a month behind on our fees. So, January's fees will be taken in February and so on. So, that's the reason...we didn't give you a break and didn't charge fees for that month. It just you'll see that on your next report. Of course, the column in red is any distributions that have been made for the month of January

and then the last column, of course, is an ending market value. You will note at the bottom on page twenty-one, line item of withholding that Wachovia made for taxes or a tax prep fee, we actually did receive that money back from them because they weren't to hold that...withhold that. They rounded it up and sent us \$200 and gave us a dollar and some odd cent interest. So, that will clear itself out this next month. I have kind of tried to break it out so that it works with our system and the Board's docket numbers that are assigned. The active wells that we have, if you'll note they start out with an 80 and then it includes the four digit docket number. The ones one page twenty-one, the last 6...page twenty-one, yes, the last 6, they're 8888 and those are the unlocateable ones that there are issues and we should not be receiving any moneys. So, I kind of assigned it that account number on our system so we know we should not be posting to those. And then after that, starting on page twenty-two, we have the unfunded units that have been approved but we've not started receiving money. They actually start out with a 90 number and once moneys are received for each of these wells then that number will be changed to an 80 and become...moved up into the active spreadsheet for reporting purposes. Of course, next month, the two columns the funds received from Wachovia will go

away so it will condense it just a little bit. Moving on, I have attached just for your alls knowledge what we actually see from the producers, a copy of the documentation and the checks. I didn't know if that had ever been shared with you all or not. I thought you all might find it interesting just to note what...what it is we receive from them. David and I met last week and have spoken that we are going to attempt to get EQT and possibly CNX to maybe start transferring the moneys in by ACH or a wire and then just send us over a spreadsheet rather than send us an 18 cent check and charge for postage and the processing of the check, which, you know, would be a huge savings not only to them but the owners of each of these wells.

LETON HARDING: If you would note, Mr. Chairman, and members of the Board, if you look at one of those checks you'll see...I think it's very light, but it's says electronically presented. Basically what Ms. Davis and her staff do now is they scan these checks once we receive them and deposited and once they scan those checks, then, of course, we can look at them, but also the staff can that morning. I think members of the staff visited with Debbie last week to review both this system how they reported information electronically and instantaneously, but also how they can pull up information on the account electronically

online to review as well.

DEBBIE DAVIS: Yes, I have...David and Diane both have access now through our First Teller to be able to pull up copies of the checks that are received and processed that day. They can pull those up by producer or by check number. There's various ways of doing that. Then also they have access to our trust system where they can actually go in and look at the breakdown of the transactions per unit, you know. I have the royalty deposits showing up \$1,135.67, but that could be made up of five separate checks. They would be able to see those individual ones and correlate it with our First Teller to see those checks.

BUTCH LAMBERT: Any questions from the Board?

BRUCE PRATHER: I've got a question, Mr. Chairman. We've been talking about these gob wells that...where they took individual CBM wells and they're in working mines and so now these wells are taking a percentage of the income. I mean, it wouldn't be so much for you people as it would be for the audit that we're doing. If we could break out the gob wells on your presentation here, it would help. Is there anyway it could be done? Could you give us that...the wells that are in the gob units?

DAVID ASBURY: We might can identify that someday.

DEBBIE DAVIS: I will be more than happy to work

with David and---.

BRUCE PRATHER: Because they all will have a different treatment than the rest of these wells.

DEBBIE DAVIS: Okay.

BUTCH LAMBERT: David, could put just a unique identifier like we do on...like you did on the account numbers?

DAVID ASBURY: What you might do is just bold the unit number.

DEBBIE DAVIS: Okay, yes.

BUTCH LAMBERT: Uh-huh. That would work.

DAVID ASBURY: We could...we'll work with Debbie, Mr. Chairman.

BRUCE PRATHER: Good.

DEBBIE DAVIS: Yeah, I'm very flexible with this. Whatever works for you all, you know, we can work together and achieve that.

DAVID ASBURY: We know which units are in the 16 that we have currently.

BRUCE PRATHER: That's good. Just as long as, you know, you people know it because they have a different accounting approach.

DEBBIE DAVIS: Okay. Yes, if David can identify those and we can mark those so it will be notable by you.

BUTCH LAMBERT: Any other questions or comments?

SHARON PIGEON: Did you say that the operating contributions have not been transferred from Wachovia---?

DEBBIE DAVIS: Yes.

SHARON PIGEON: ---for someone who chooses to be a participating operator? Did you say that had not been transferred?

DEBBIE DAVIS: Yes. All funds have been received. I just said the working interest deposits, there was known received for the month of January.

SHARON PIGEON: Okay.

DEBBIE DAVIS: Yes. No, I've received all moneys now from Wachovia.

SHARON PIGEON: Okay.

DEBBIE DAVIS: So, they no longer have any funds.

SHARON PIGEON: Thank you.

DEBBIE DAVIS: But during the month there was no---

SHARON PIGEON: There was that \$200.

DEBBIE DAVIS: Well, I actually received it late Friday afternoon. So, we're good.

SHARON PIGEON: That's what I wanted to know.

DEBBIE DAVIS: Yes.

BUTCH LAMBERT: Any other comments?

(No audible response.)

BUTCH LAMBERT: Let me say that I really appreciate the work that you all have done in working with our staff over here and I'm getting feedback from the staff that the transition has been absolutely wonderful and you folks have really been good to work with and made the transition good. I really appreciate the information that you're sharing with us at each meeting. This is very, very helpful. We haven't seen this type of information before and it's good to be able to see what's actually going on each accounts and look at what...how they account has been managed. Let me say, as Chairman of the Board, we really appreciate that.

LETON HARDING: Well, and Mr. Chairman and members of the Board, you know, one of the reasons that we have some confidence in submitting the proposal for your consideration was Ms. Davis and her experience working with the group. The other aspect, as we shared with the Board, is that we have an extensive electronic kind of software and systems and things like that...I know Debbie has spent a lot of time working on this. She could pull the information and query information out so that we can create those things without too much difficulty. The final aspect, again, by making...from our prospective, you know, again, for the staff and for the Board, this information you need. We're

your agent, so we need to do what you need us to do. But particularly for the staff here by making information available to them on basically a real time daily basis, if they have a curiosity about something, they can go look at it and then if the curiosity gets hot, then they can call Debbie up and she can tell them what's really going on.

BUTCH LAMBERT: That makes their job a lot easier and we appreciate that.

DAVID ASBURY: Mr. Chairman, just to add to that, some of the Escrow Account Enhancements that the Board envisioned maybe a year from now, is already in place. The enhanced monitoring tools desired are now in place the First Bank and Trust "First Teller" and their Trust Account that we're able to access. We are today, far ahead of that first envisioned by the Board based on the work of First Bank and Trust and the software that has been made available to the Staff.

DEBBIE DAVIS: And might I say, David and Diane have been wonderful to work with. As things have come over and it's questions like, okay, I'm not sure about this, you know, give me a little bit more detail and they've been wonderful about getting back with me and explaining to me the process or the details of something so that I can get it set up properly.

BUTCH LAMBERT: If you have any concerns about them, just let us know.

BILL HARRIS: We'll straighten them out.

(Laughs.)

BUTCH LAMBERT: Thank you all. We appreciate you taking the time in this wonderful weather---.

LETON HARDING: Thank you.

DEBBIE DAVIS: Okay, thank you all.

BUTCH LAMBERT: ---to drive down.

LETON HARDING: Thank you for the drive.

BUTCH LAMBERT: The last item on the docket is approval of last month's January, 2010 minutes. I hope everyone had a chance to review those. Are there any comments on the minutes or any additions or deletions?

(No audible response.)

BUTCH LAMBERT: Do I have a motion to accept the minutes as presented?

BRUCE PRATHER: Motion to approve.

BILL HARRIS: Second.

BUTCH LAMBERT: I have a motion and second. All those in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, ladies and gentlemen.

We're adjourned.

STATE OF VIRGINIA,

COUNTY OF BUCHANAN, to-wit:

I, Sonya Michelle Brown, Court Reporter and Notary Public for the State of Virginia, do hereby certify that the foregoing hearing was recorded by me on a tape recording machine and later transcribed under my supervision.

Given under my hand and seal on this the 8th day of March, 2010.

NOTARY PUBLIC

My commission expires: August 31, 2013.