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VIRGINIA OIL AND GAS BOARD

HEARING OF SEPTEMBER 19, 1995

9:15 A.M.

AT THE SOUTHWEST VIRGINIA

4-H CENTER

ABINGDON, VIRGINIA

Appalachian Court Reporting Services, Inc.

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Abingdon, Virginia

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September 19, 1995

This matter came on to be heard before the Virginia Gas and Oil Board on this the 19th day of September, 1995 at the Southwest Virginia 4-H Center, Hillman Highway, Abingdon, Virginia pursuant to Section 45.1-361.19.B and 45.1-361.22.B of the Code of Virginia.

MR. CHAIRMAN: Good morning. My name is Benny Wampler and I'm Deputy Director for the Virginia Department of Mines, Minerals and Energy and Chairman of the Gas and Oil Board. I'll ask the Board members to introduce themselves starting with Mr. Mason.

(MEMBERS INTRODUCED.)

ITEM I, II

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3 MR. CHAIRMAN: The first item on today's agenda is a petition
4 from Buchanan Production Company for pooling a coalbed
5 methane unit identified as R-1 located in the Oakwood
6 Coalbed Methane Gas Field II. The docket number is VGOB-
7 95/09/19-0516.

8 MR. SWARTZ: Mark Swartz appearing for the applicant.

9 MR. CHAIRMAN: The record will show there are no others. You
10 may proceed.

11 MR. SWARTZ: Mr. Chairman, if there's no objection the next
12 item on the docket, S-1, shares a lot of the exhibits and
13 cost data. It might make sense to call that one as well
14 and we could do them together.

15 MR. CHAIRMAN: I'll go ahead and call the S-1 unit as well.
16 That's docket number VGOB-95/09/19-0517. The record will
17 show there are no others present today to speak to that.
18 So you may proceed with both of those.

19 COURT REPORTER: (Swears witness.)
20

21 LESLIE K. ARRINGTON

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

DIRECT EXAMINATION

BY MR. SWARTZ:

Q. Would you state your full name, please?

A. Leslie K. Arrington.

Q. And who do you work for?

A. Consol.

Q. Generally what are your responsibilities and duties with Consol insofar as they pertain coalbed methane?

A. I draft the pooling applications and all the well permitting.

Q. Did you draft the notices and the applications with regard to both the R-1 and S-1 units today?

A. Yes, I did.

Q. And you've signed all of those as well?

A. Yes, I did.

Q. The mailings and publications and so forth were all accomplished under your direction?

A. Yes, they were.

Q. These two units, R-1 and S-1, are short hole active gob units, correct?

A. That's correct.

Q. And they're being pooled under the Oakwood II rules?

A. Yes, they are.

Q. The last item of your's on the docket today, the V-15,

1 is going to be under both Oakwood I and Oakwood II. But
2 these S-1 and R-1 are just Oakwood II?
3 A. That's correct.
4 Q. Are they both 80 acre units?
5 A. Yes, they are.
6 Q. Did you mail to all of the people -- all of the respond-
7 ents listed in the notice?
8 A. Yes, we did.
9 Q. Have you filed exhibits with regard to when the mailing
10 was undertaken and who signed for the mail, what was
11 returned and so forth?
12 A. Yes, we did. The affidavit and certification of mailing
13 is at Exhibit #2.
14 Q. And that's in both of the booklets that you gave the
15 Board members today?
16 A. Yes, it is.
17 Q. With regard to an amendment was it necessary to amend
18 Exhibit #B with regard to both R-1 and S-1?
19 A. Yes, it was.
20 Q. And did you insert or slide into the front of the
21 published -- the bound books today a one page amendment
22 of Exhibit #B with regard to each of these units?
23 A. Yes, we did.
24 Q. Essentially was the problem that the panel percentages
25 were incorrect on both of the exhibits and the advised or

1 amended Exhibit #B has corrected that?

2 A. Yes.

3 Q. Were the notices of hearing and the Exhibit A-1 publish-
4 ed?

5 A. Yes, it was. It was published in the Bluefield Daily
6 Telegraph on August 24th.

7 Q. And would that be true with regard to both of these
8 units?

9 A. Yes, it is.

10 Q. In addition the exhibit packet that you've filed today
11 with regard to both of these units also contains at
12 Exhibits #4, #5 and #6 documents pertaining to the
13 authority of Consol, Inc. to act as professional manager
14 for Buchanan Production Company?

15 A. Yes, they are.

16 Q. Getting back to some of the preliminary information here,
17 the applicant in both applications is Buchanan Production
18 Company?

19 A. Yes, it is.

20 Q. And in both instances is the applicant requesting that
21 someone else be the designated operator?

22 A. Yes, it is.

23 Q. And who would that be?

24 A. Consol, Inc.

25 Q. Would you tell us about the corporate existence of

1 Consol, Inc. and whether or not Consol, Inc. is bonded
2 and authorized to do business here?
3 A. Yes. It's bonded to do business in the State of Virgin-
4 ia.
5 Q. Is it a Delaware corporation?
6 A. Yes.
7 Q. And does it have a blanket bond on file?
8 A. Yes, it does.
9 Q. Buchanan Production Company on the other hand is a
10 general partnership, is it not?
11 A. Yes, it is.
12 Q. Who are the two partners in Buchanan Production?
13 A. Appalachian Inc. and --
14 Q. Appalachian Operators and Appalachian Methane, correct?
15 A. That's right.
16 Q. Has Consol designated its duties as professional manager
17 -- or delegated its duties and authority as professional
18 manager to certain people within the Consol, Inc.
19 organization?
20 A. Yes, it has.
21 Q. And who are those people and generally what are their
22 responsibilities?
23 A. Claude Morgan as general manager, William Gillenwater as
24 land manager and Randy Albert as regulatory manager.
25 Q. Do you work under Claude Morgan with regard to these

1 applications?

2 A. Yes, I do.

3 Q. Have you listed in the notices and in Exhibit #B with
4 regard to both units all of the respondents?

5 A. Yes, we have.

6 Q. And there are the people with whom you do not have a
7 lease or other agreements allowing or authorizing you to
8 develop these units?

9 A. That's correct.

10 Q. Do you want to add or subtract by dismissal any respond-
11 ents today?

12 A. No, we do not.

13 Q. If you turn to Exhibit #A, Page 2, with regard to the R-1
14 unit in terms of standing and what has been pooled here
15 the coal interest -- what percentage of that is controll-
16 ed by Consol?

17 A. 100 percent.

18 Q. And of the oil and gas interest what percent is leased,
19 owned or otherwise controlled by the applicant?

20 A. 97.9662 percent.

21 Q. And with regard to R-1 what amount of interest or what
22 percentage of interest is subject to this pooling?

23 A. 2.0338 percent of the oil and gas.

24 Q. With regard to unit S-1, again directing your attention
25 to Exhibit #A, Page 2, what percent of the coal interest

1 is owned, leased or controlled by the applicant?
2 A. 100 percent.
3 Q. And with regard to oil and gas?
4 A. 96.655 percent.
5 Q. What interest or percentage of that interest is subject
6 to this pooling application concerning S-1?
7 A. 3.345 percent.
8 Q. Of the oil and gas?
9 A. Of the oil and gas, yes.
10 Q. In obtaining leases of the coal interest and obviously
11 the bulk of the oil and gas interest pertaining to both
12 of these units what are the lease terms that the appli-
13 cant has been offering?
14 A. One dollar per acre rental, one-eighth royalty and a five
15 year term.
16 Q. Is the rental payable after production commences or does
17 it cease upon production?
18 A. It ceases.
19 Q. Would you recommend that in the deemed to have leased
20 portion of any order entered by the Board with regard to
21 these units that it use similar terms?
22 A. Yes, we do.
23 Q. As I think we've previously indicated, both of these
24 units are 80 acre units and I would ask you to tell the
25 Board what seam or seams are being pooled?

1 A. The Pocahontas #3 Seam and all seams above.
2 Q. Up to what seam?
3 A. Below the Tiller.
4 Q. So basically from the Tiller down to the Pokie 3 and the
5 shells below the Pokie 3?
6 A. That's correct.
7 Q. And not the shell or coal above the Tiller?
8 A. That's correct.
9 Q. With regard to each of these units there is an Exhibit #C
10 that has been filed which shows the estimated cost on a
11 per well basis of the gob wells?
12 A. That's correct.
13 Q. What is the estimated cost per well of the gob wells for
14 both of these units?
15 A. \$148,689.64.
16 Q. Per well?
17 A. Per well.
18 Q. And is that a reasonable estimate in your opinion?
19 A. Yes, it is.
20 Q. With regard to either of the applications one of the last
21 exhibits in the application is an Exhibit #G, Page 1, is
22 it not?
23 A. That's correct.
24 Q. Is that Exhibit #G, Page 1, essentially the same for both
25 of these applications?

1 A. Yes, it is.

2 Q. Does that exhibit show the percentage of each panel in
3 these units and then does it allocate a portion of the
4 total cost to both the S-1 and R-1 unit?

5 A. Yes, it does.

6 Q. With regard to the R-1 unit what percentage of the 4-West
7 Longwall is going to be -- the production and costs are
8 going to be attributable to R-1?

9 A. 17.456 percent.

10 Q. And that translates to what cost allocation amount?

11 A. \$259,545.42.

12 Q. And with regard to S-1 what's the percentage and what's
13 the cost allocation?

14 A. To 4-West it's 9.337 percent and the cost is \$138,824.13.

15 Q. Now, both of these units R-1 and S-1 are also affected by
16 the 5-West Longwall, correct?

17 A. That's correct.

18 Q. What would the percentages for each of the units be with
19 regard to 5-West and the allocated costs?

20 A. 35.311 percent for R-1 and the cost is \$472,534.19. For
21 the S-1 unit the 5-West panel is 21.804 percent and
22 \$291,682.

23 Q. With regard to each of these exhibits, Exhibit #G, Page
24 1, for S-1 and R-1 there is a total reported at the
25 bottom for each of the units?

- 1 A. Yes, it is.
- 2 Q. Now, in terms of the amended or revised Exhibit #B, just
3 to discuss the interplay between the percentages shown on
4 that exhibit and the cost figures, the third column of
5 amended Exhibit #B reports the respondent's interest in
6 the 80 acre unit, correct?
- 7 A. Yes, it does.
- 8 Q. And then in columns four and five that interest in the
9 unit is further translated into an interest in the cost
10 and/or revenue to be allocated with regard to each of the
11 longwall panels, correct?
- 12 A. That's correct.
- 13 Q. So in terms of royalty for production out of either of
14 those panels the numbers in the fourth and fifth column
15 on amended Exhibit #B would be where respondents should
16 look to see what their undivided interest would be?
- 17 A. That's correct. It would.
- 18 Q. And with regard to cost in terms of calculating what a
19 participation interest would cost for a carried interest
20 multiplier would be you would take the division of
21 interest in the fourth and fifth columns and multiply
22 that times the pertinent cost allocation figure to come
23 up with the amount?
- 24 A. That's correct. You could.
- 25 Q. Lastly, Les, is it your view that the applicant's plans

1 for these units, as disclosed in Exhibit #G shows the
2 units overlaying the mine below, is it your opinion that
3 this is a reasonable plan to develop the coalbed methane
4 within and under both of these units?

5 A. Yes, it is.

6 MR. SWARTZ: That's all I have.

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

8 MR. MASON: Looking at the estimated well cost, I'm just
9 curious on the one -- both of these wells estimate the
10 location construction at \$30,000. That's significantly
11 higher than a lot of these other ones that we've looked
12 at. Is there any particular problem with this?

13 THE WITNESS: No, no particular problem other than you're just
14 in terrain that there's no existing --

15 MR. MASON: For instance, the one that we're going to look at
16 third, V-15, it shows a total of title and location costs
17 of \$31,000. This is about \$45,000. I'm just curious.
18 Is V-15 and actual as opposed to an estimate?

19 THE WITNESS: No.

20 MR. MASON: One other question. On V-15 you treat contract
21 drilling as a material cost. I don't want to jump over
22 that but I was just comparing the two. And on both of
23 these you treat contract drilling as a material cost.
24 One of them is labor and incidentals and the other one is
25 the materials and I just --

1 THE WITNESS: It's just probably in the wrong column on there.
2 MR. MASON: How do you all actually book it?
3 THE WITNESS: The drilling?
4 MR. MASON: Uh-huh.
5 THE WITNESS: Just a minute. (Pause.)
6 MR. MASON: Generally it's done as labor so you can treat it
7 as intangibles.
8 THE WITNESS: I couldn't tell you -- it's on the list out
9 there. I couldn't tell you how we've got it listed.
10 MR. MASON: I would suggest that you may want to correct that.
11 THE WITNESS: Okay.
12 MR. MASON: Because it is a difference. It makes a big
13 difference in your dry hole costs. I mean, I realize
14 that that's not likely to be a problem in this case, but
15 I think for the correctness of the application that that
16 would be appropriate.
17 THE WITNESS: Okay.
18 MR. CHAIRMAN: Other questions?
19 (Witness stands aside.)
20 MR. CHAIRMAN: Do you have anything further?
21 MR. SWARTZ: No.
22 MR. EVANS: Mr. Chairman, I make a motion to grant the
23 petitions.
24 MR. MASON: Second.
25 MR. CHAIRMAN: A motion and a second. Further discussion?

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

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

3 MR. MASON: I assume that's for both units?

4 MR. EVANS: I did that.

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ITEM III

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3 MR. CHAIRMAN: The next item on today's agenda is a petition
4 from Buchanan Production Company for a coalbed methane
5 unit identified as V-15 located in the Oakwood Coalbed
6 Methane Gas Field under Oakwood rules I and II. This is
7 docket number VGOB-95/09/19-0518. We'd ask the parties
8 that wish to address the Board in this matter to come
9 forward at this time.

10 MR. SWARTZ: Mark Swartz appearing for the applicant.

11 MR. CHAIRMAN: The record will show there are no others. You
12 may proceed.

13 MR. SWARTZ: This unit, as I indicated previously, involved an
14 application for both a fracked gas production under
15 Oakwood I and short hole and active gob production under
16 Oakwood II. So it's a little different than the two that
17 we just dealt with. Les has just given you a booklet
18 which has the basic exhibits which we tend to submit on
19 the day of the hearing. Exhibit #1 is a copy of the
20 notice that was sent out. As you will see, there are
21 just three respondents in this unit. Exhibit #2 is the
22 due diligence affidavit and contains the mailing inform-
23 ation. Exhibit #3 pertains to publication and Exhibits
24 #4, #5 and #6 pertain to the applicant's delegation of
25 authority to Consol and the further delegation within

1 Consol to certain people.

2
3 LESLIE K. ARRINGTON

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

6
7 DIRECT EXAMINATION

8
9 BY MR. SWARTZ:

10 Q. Les, I'm going to remind you that you're under oath.
11 State once again your name and who you work for?

12 A. Leslie K. Arrington. I'm employed by Consol, Inc. as a
13 permit specialist.

14 Q. Did you prepare the notice of hearing and the application
15 with regard to this unit, V-15?

16 A. Yes, I did.

17 Q. Was the mailing and publication undertaken under your
18 direction and authority?

19 A. Yes, it was.

20 Q. The applicant here is who?

21 A. Buchanan Production.

22 Q. Is Buchanan Production a Virginia general partnership
23 with two partners, namely Appalachian Operators, Inc. and
24 Appalachian Methane, Inc.?

25 A. That's correct.

1 Q. Does Consol, Inc. indirectly own both of these corporate
2 partners?
3 A. Yes, it does.
4 Q. Is Buchanan Production Company authorized to do business
5 in the Commonwealth?
6 A. Yes, it is.
7 Q. The applicant is asking that Consol, Inc. be the design-
8 ated unit operator?
9 A. Yes, we are.
10 Q. Is Consol, Inc. a Delaware corporation authorized to do
11 business in the Commonwealth?
12 A. Yes, it is.
13 Q. Has Consol, Inc. registered with the DMME and does it
14 have a blanket bond on file?
15 A. Yes, it does.
16 Q. Do Exhibits #4, #5 and #6 pertain to and show that the
17 management committee of Buchanan Production Company has
18 delegated authority to explore, develop and maintain its
19 properties and assets to Consol, Inc.?
20 A. Yes.
21 Q. Has Consol, Inc. named certain individuals with certain
22 responsibilities to perform these duties?
23 A. Yes, it has.
24 Q. And who are they?
25 A. Claude Morgan as general manager, William Gillenwater as

1 land manager and Randy Albert as regulatory manager.
2 Q. Do you work under and report to Claude Morgan, the
3 general manager?
4 A. Yes, I do.
5 Q. Are the names of the people that we're seeking to pool
6 here listed in the notice of hearing?
7 A. Yes, they are.
8 Q. And they are also listed in Exhibit #B, are they not?
9 A. Yes, they are.
10 Q. Did you cause the notice of hearing and the application
11 to be mailed to these people?
12 A. Yes, we did.
13 Q. Has proof of mailing been tendered to Mr. Fulmer's office
14 and to the Board?
15 A. Yes, it has.
16 Q. Where would they find that?
17 A. At Exhibit #2.
18 Q. It contains a certification and notice page, does it not?
19 A. Yes, it does.
20 Q. And it shows that the notice and the application were
21 mailed when?
22 A. On August 17th.
23 Q. Does it show that four out of the five people signed for
24 their mail?
25 A. Yes, it does.

1 Q. And one was returned?
2 A. That's correct.
3 Q. Which one?
4 A. Phyllis Everett.
5 Q. Was the notice and Exhibit #A-1, the map locating this
6 unit, published?
7 A. Yes, it was. It was published in the Bluefield Daily
8 Telegraph on August 24th.
9 Q. And the proof of publication is also in this?
10 A. Yes, it is.
11 Q. If you'll look at Exhibit #A, Page 2, in terms of
12 standing and in terms of what's being pooled, Les, what
13 is the percentage of the coal interest that's either
14 owned, leased or controlled by the applicant?
15 A. 100 percent.
16 Q. And of the oil and gas?
17 A. 99.7481 percent.
18 Q. What is the percentage of the interest that's sought to
19 be pooled by this application?
20 A. 0.2519 percent.
21 Q. In leasing the coal interest, coal claims with regard to
22 coalbed methane and most of the oil and gas interests
23 what have the terms been that you have been offering?
24 A. One dollar per acre rental, one-eighth royalty, a five
25 year term.

1 Q. Does the dollar per acre rental cease when production
2 commences?
3 A. Yes, it does.
4 Q. Would you recommend that in any order that might be
5 entered by the Board with regard to deemed to have leased
6 status that these terms be incorporated in the order?
7 A. That's correct. We would.
8 Q. Unit V-15 is an 80 acre unit, correct?
9 A. That's correct.
10 Q. And you're seeking to pool that both as a fracked well
11 under Oakwood I rules and as a short hole active gob unit
12 under Oakwood II rules, is that correct?
13 A. That is correct.
14 Q. This 80 acre unit lies over the top of a portion of the
15 VP-8 mine?
16 A. That's correct.
17 Q. And there are two longwall panels -- proposed panels in
18 that mine which would intersect this 80 acre unit, is
19 that correct?
20 A. That's correct.
21 Q. Are those shown on Exhibit #G?
22 A. Yes, they are.
23 Q. And Exhibit #G shows one well located -- proposed well
24 located within unit V-15, does it not?
25 A. That is correct. In the 3-East and the 4-East longwall

1 panels.

2 Q. In terms of what is being pooled here in terms of seams
3 are you seeking to pool all coal seams and associated
4 strata below the Tiller?

5 A. That's correct. We are.

6 Q. Now, with regard to this unit are there two cost estimat-
7 es that you've filed?

8 A. Yes, there are.

9 Q. One of them deals with the frack wells that are proposed,
10 correct?

11 A. That's correct.

12 Q. And what is the estimated cost on a per well basis of the
13 frack wells?

14 A. \$264,981.90.

15 Q. There's also an estimated cost with regard to one gob
16 well, correct?

17 A. That's correct. It was \$166,905.64.

18 Q. Are these estimates in your judgement reasonable estimat-
19 es of what the costs should actually be to do this work?

20 A. Yes, it is.

21 Q. Is the reason that we have two cost estimates the fact
22 that you have undertaken to make this cost reflected here
23 consistent with the approach that we took with the Board
24 pertaining to unit V-16 last month where there was a
25 fracked well that was not allowed?

1 A. That's correct.

2 Q. So we have, in effect, backed one of the fracked wells up
3 and converted it to a gob here to make these costs
4 consistent as you go across the units affected by these
5 panels?

6 A. That's correct. We did do that.

7 Q. Exhibit #G, Page 1, shows total of cost for both the
8 3-East and 4-East panels, correct?

9 A. That's correct. It does.

10 Q. What is the percentage in each panel of revenue costs
11 that will be allocated to the V-15 unit and the resulting
12 portion of the total costs?

13 A. For V-15 in the 3-East panel it's 26.983 percent. The
14 cost is \$429,004.43. For V-15 in the 4-East panel it's
15 8.795 percent and the cost is \$129,877.05.

16 Q. Looking for a moment at Exhibit #B, the third column sets
17 forth the respondent's undivided interest in the unit,
18 correct?

19 A. That's correct.

20 Q. And that undivided interest in the unit set forth in
21 column three would be pertinent to the allocation of
22 revenue with regard to the unit while it is a fracked
23 unit?

24 A. That's correct. It will.

25 Q. And when it converts from a frack status to short hole or

1 active gob status then it would be the fourth and fifth
2 columns dealing with the division of interest in each of
3 the two panels that would pertain to the allocation of
4 revenue and to the cost, correct?

5 A. That's correct. It does.

6 Q. In our application at Paragraph 4, 3iii and ii, have we
7 -- in particular 3ii -- set forth proposed language with
8 regard to how the order should express when gas is
9 allocated under the fracked well scenario as per the
10 undivided interest in the entire unit and then when it
11 converts how it would be paid under Oakwood II?

12 A. Yes, we have.

13 Q. And that is consistent with the language that the Board
14 has been using in the past when we have pooled both
15 units?

16 A. Yes, it is.

17 Q. Lastly, Les, is it your opinion that the plan of develop-
18 ment disclosed by this application and the exhibits
19 attached thereto is a reasonable plan to develop both on
20 a fracked well basis and a gob basis the gas under unit
21 V-15?

22 A. Yes, it is.

23 MR. SWARTZ: That's all I have.

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

25 MR. EVANS: I've got one real quick. How many wells are in

1 this unit?

2 THE WITNESS: One is in this unit.

3 MR. EVANS: I've got a question then. This is something you
4 can maybe help me with. In your application CBM add-
5 itional well frack -- Exhibit #C, on your cost estimates,
6 additional well, I don't understand why that's labeled
7 that way.

8 MR. SWARTZ: When we were here last month -- if you'll look at
9 -- stay with Exhibit #G and come down to the third panel
10 from the top which is 3-East. If you look at unit V-16
11 in 3-East there was a V-16B about on the line.

12 MR. EVANS: I remember.

13 MR. SWARTZ: And what we agreed to do last time we were here
14 was to amend our application to remove V-16B as a fracked
15 well and only use it as a gob well once the panel was
16 isolated. So we basically -- that additional fracked
17 well is that well as a gob well rather than as a fracked
18 well. That's why that extra exhibit is there.

19 MR. EVANS: So there are actually two holes in this --

20 THE SWARTZ: In V-15. Only one hole is right now scheduled
21 for the V-15 unit.

22 MR. EVANS: In that case I've got another question. Maybe I'm
23 just dense this morning, but in your cost estimates
24 you've got 1,000 feet of 13 and 3/8ths casing at \$14.90 a
25 foot in Exhibit #C and then you go over to the additional

1 well, gob when it converts over, you've got 1,000 at 13
2 and 3/8ths casing at \$15 a foot. The numbers are \$16,900
3 and \$17,000. I guess if only one hole's drilled are you
4 going to charge them twice or in costs estimates? How am
5 I suppose to look at these cost estimates? Do you see
6 what I'm saying?

7 MR. SWARTZ: The cost estimates for -- the fracked well
8 estimate is for a fracked well times how ever many are
9 proposed for the entire panel in G. So this fracked well
10 pertains to the one that's shown in this unit. The
11 additional well which is a gob well pertains to the cost
12 of the gob well which is not going to be drilled within
13 this unit.

14 MR. EVANS: Fine. That's all I needed to know.

15 MR. SWARTZ: You need to consider wells which are outside of
16 the unit to generate the cost figures in Exhibit #G and
17 that's why you get this extra stuff.

18 MR. EVANS: That's all I needed.

19 MR. CHAIRMAN: Other questions?

20 (Witness stands aside.)

21 MR. CHAIRMAN: Do you have anything further?

22 MR. SWARTZ: No.

23 MR. EVANS: Mr. Chairman, I move that we grant the petition.

24 MR. MASON: Second.

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

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

It's a unanimous approval. Thank you.

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

ITEM V

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3 MR. CHAIRMAN: The next item on today's agenda is a petition
4 from Equitable Resources Exploration for a well location
5 exception for proposed well VAD-2374. This is docket
6 number VGOB-95/09/19-0519. We'd ask all the parties that
7 wish to address the Board in this matter to come forward
8 at this time.

9 MR. KAISER: Mr. Chairman and members of the Board, Jim Kaiser
10 on behalf of Equitable Resources Exploration. With your
11 permission what we'd like to do is we have applications
12 for four location exceptions before you today and two of
13 them which will be Items V and VI are locations that were
14 approved in conjunction with an environmental assessment
15 done by the United States Forest Service. We have Mr.
16 McIntyre here today to testify on those and he's got some
17 things he's got to do this afternoon. So with your
18 permission if we could hear Items V and VI and then go
19 back to IV that would be appreciated.

20 MR. CHAIRMAN: All right. We'll do that. You're not suggest-
21 ing combining V and VI?

22 MR. KAISER: No. We're not going to combine them. We're going
23 to do them separately but if we could hear them in
24 advance.

25 MR. CHAIRMAN: We'll skip Item IV and go then to Item V as

1 requested. This is a petition from Equitable Resources
2 Exploration for a well location exception for proposed
3 well V-2730. This is docket number VGOB-95/09/19-0520.
4 We'd ask the parties that wish to address the Board in
5 this matter to come forward at this time.

6 MR. KAISER: Mr. Chairman and members of the Board, Jim Kaiser
7 on behalf of Equitable Resources Exploration. Our
8 witnesses in this matter will be Don Hall, Jim McIntyre
9 and Martin Puskar. Before we get testimony underway let
10 me hand out these. The exhibit that we're using for this
11 location exception is a copy of -- it's just a copy of
12 the plat that was filed with the application for the
13 location exception. It's the exact same plat. I just
14 thought I'd go ahead and make one so you don't have to go
15 through your notebooks to dig it out.

16 MR. CHAIRMAN: The record will show there are no others
17 testifying. You may proceed.

18 MR. KAISER: Could you swear the witnesses, please, at this
19 time?

20 COURT REPORTER: (Swears witnesses.)

21 MR. KAISER: Mr. Chairman, our first witness in this matter
22 will be Mr. Don Hall.
23
24
25

DON HALL

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

DIRECT EXAMINATION

BY MR. KAISER:

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

A. Don C. Hall. I'm employed by Equitable Resources Exploration as a district land man.

Q. Have your qualifications as an expert witness previously been accepted by this Board?

A. Yes, sir.

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

A. Yes, they do.

Q. Has a permit dated August 29th, 1995 been submitted?

A. Yes, it has.

Q. Are you familiar with the application for a location exception for well V-2730 and the relief requested?

A. Yes.

Q. Have all interested parties been noticed as required by Section 4.B of the Virginia Gas and Oil Board Regulations?

1 A. Yes, they have.

2 Q. Would you indicate for the Board the ownership of the oil
3 and gas underlying the unit for well V-2730?

4 A. Penn-Virginia Resources owns 28.51 percent interest in
5 the unit. John Patrick Hagen 16.07 percent. John R.
6 Lawson, agent, 26.07 percent, and the Hagen Estate
7 Incorporated 19.35 percent.

8 Q. Does EREX have a working interest in oil and gas leases
9 covering the tracts in this unit?

10 A. Yes, we do.

11 Q. Does EREX have the right to operate the reciprocal wells?

12 A. Yes.

13 Q. Are there any correlative rights issues?

14 A. No.

15 Q. Who owns the surface underlying this location?

16 A. U.S. Forest Service.

17 Q. Mr. Hall, have you personally inspected this site?

18 A. Yes, I have.

19 Q. In your professional opinion is this well location
20 exception required in order safeguard the environment and
21 to effectuate effective land management practices?

22 A. Yes, it is.

23 Q. Could you explain by using the exhibit -- this will be in
24 conjunction to Mr. McIntyre's testimony. Could you
25 explain why this location is where it is?

1 A. There's two reasons. This location was spotted in
2 conjunction with an environmental assessment study that
3 was done by the U.S. Forest Service and in addition there
4 is no legal location in this area. There's no where we
5 can 2,640 from the surrounding wells.

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

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

9 (Witness stands aside.)

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

11 MR. KAISER: Our next witness will be Mr. McIntyre of the
12 United States Forest Service.

13

14 JAMES F. MCINTYRE

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

17

18 DIRECT EXAMINATION

19

20 BY MR. KAISER:

21 Q. Mr. McIntyre, if you could state your full name, who
22 you're employed by and in what capacity, please?

23 A. James Frederick McIntyre. I'm employed by the U.S.
24 Forest Service. I'm a resource forester or assistant
25 ranger on the Clinch Ranger District, Jefferson and

1 George Washington National Forest.

2 Q. Could you briefly go over both your educational back-
3 ground and your work experience for the Board?

4 A. I have a BS degree from Michigan State University. I've
5 worked for the Forest Service 41 years now as a resource
6 forester. And 18 years of that time I've worked with
7 minerals management as part of my job description.

8 Q. What are some of your other areas of responsibilities
9 with the United States Forest Service?

10 A. I supervise recreation management, fire suppression,
11 land acquisition, mineral activities in the ranger
12 district.

13 MR. KAISER: Mr. Chairman, at this time I'd like to offer Mr.
14 McIntyre as an expert witness.

15 MR. CHAIRMAN: Without objection.

16 Q. (Mr. Kaiser continues.) Mr. McIntyre, what is the U.S.
17 Forest Service's interest in TK-749 51 and 51.A, that is
18 the mineral boundary?

19 A. We're the surface owner of that estate.

20 Q. Do part of your duties with the Forest Service involve
21 monitoring oil and gas operations on surface owned by the
22 United States Forest Service?

23 A. Yes, they do.

24 Q. Is EREX required to file a copy of their permit appli-
25 cation with you?

1 A. Yes. The Forest Service will issue a surface occupancy
2 permit in conjunction with a State approved application.
3 Q. Would you describe for the Board what your duties are in
4 conjunction with the approval of well site locations?
5 A. I'll normally go out with an individual from the company
6 and site these wells prior to the (Inaudible.) process
7 that the Forest Service uses to determine what mitigating
8 measures need to be implemented in order to protect the
9 surface interest.
10 Q. Mr. McIntyre, has an environmental assessment been
11 conducted on the Forest Service property where these
12 wells are located?
13 A. We're in the process of doing that right now. The public
14 comment period will close on September 29th.
15 Q. Did this assessment include all the tracts included in
16 this unit?
17 A. Yes.
18 Q. For what purpose was this study undertaken?
19 A. To involve the public we have a public comment period
20 that's required and to look at these sites to insure that
21 there's no culture resources that will be negatively
22 impacted as well as threatening endangered species --
23 plants and animals.
24 Q. Was it undertaken in conjunction with a 17 well extension
25 in the Coeburn field that is planned by Equitable

1 REASON ?

2 A. That's correct.

3 Q. Would you explain for the Board what types of oil and gas
4 activities were considered in this study with regard to
5 the effect of operations on the environment?

6 A. We basically looked at the 17 gas wells that are proposed
7 for drilling in the '96 on period. And the major
8 concerns were water shed protection, erosion control as a
9 part of the water shed protection. There are threatened
10 and endangered species muscled down in the Clinch River
11 that this gas field drains into, either the Guess River
12 or the Clinch River eventually, and there is great
13 concern in the water monitoring being done on several of
14 the streams in this gas field in order to insure that
15 there's no negative impacts on those particular species.
16 In addition we look at other species that are on the
17 State threatened and endangered list and coordinate that
18 through the State Clearing House or their culture
19 resource folks.

20 Q. Mr. McIntyre, in particular as to the V-2730 would you
21 describe for the Board from the Forest Service's pro-
22 spective why this location exception is necessary?

23 A. We looked at that particular well location at several
24 different areas in there and we came to the agreement
25 that we would like to have it. It's on a relatively

1 high -- it's on a level site right there. We couldn't
2 really place it, I'm told, in another location any place
3 else that wouldn't have required a variance. It's in a
4 location that's not in a drainage. It's at the head
5 waters of several drainages and pretty steep terrain and
6 it lays well on the land and will cause us the least
7 amount of impact from a sediment problem -- an erosion
8 control problem.

9 Q. In your professional opinion is this location exception
10 necessary in order to comply with the plan of development
11 set out in the environmental assessment?

12 A. It is.

13 Q. And is it your professional opinion that this well
14 location exception represents a location which is
15 necessary to protect the environment and to facilitate
16 effective land management practices?

17 A. Yes.

18 MR. KAISER: I have no further questions of this witness, Mr.
19 Chairman.

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

21 MR. EVANS: Mr. McIntyre, to this point in time there have
22 been no objections from any agency or any negative public
23 comment regarding EIS for this area?

24 THE WITNESS: We have one individual that represents SAW which
25 is Save Appalachian Wilderness and they object to all

1 proposals regardless. If you're paving a road in a
2 recreation area or whatever you're doing that would
3 disturb the earth that organization will object to that.
4 We do have those comments from them. We will address it
5 and we will go forward with the project.

6 MR. EVANS: So it's just more or less a blanket matter of
7 course?

8 THE WITNESS: Not really. Most of their -- they really
9 weren't objecting to -- I mean, global warming is an
10 issue that's outside the scope of this decision. A lot
11 of the issues that they raise are certainly outside the
12 scope of the decision that we're making here. So that's
13 how we're addressing that in those issues.

14 MR. EVANS: Let me ask you the question, have any issues been
15 raised that are germane to this area that have appli-
16 cation to this area specifically as opposed to what it's
17 effect on global warming or international trade or
18 whatever else?

19 THE WITNESS: No. We've had so far, I believe, three respons-
20 es. Two of them from State agencies that were in
21 concurrence.

22 MR. EVANS: Thank you.

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

24 (Witness stands aside.)

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

1 MR. KAISER: Our next witness will be Mr. Martin Puskar.

2

3

MARTIN PUSKAR

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

6

7

DIRECT EXAMINATION

8

9

BY MR. KAISER:

10

Q. Mr. Puskar, could you please state your full name, who
11 you're employed by and in what capacity?

12

A. Martin P. Puskar. I'm employed by Equitable Resources
13 Exploration as a petroleum engineer.

14

Q. Have you previously testified before the Virginia Gas and
15 Oil Board as an expert witness?

16

A. Yes, I have.

17

Q. And at what hearing did you testify?

18

A. Most recently I think was the Roaring Fork Field Rules.

19

MR. KAISER: Mr. Chairman, we would submit Mr. Puskar as an
20 expert witness.

21

MR. CHAIRMAN: Without objection.

22

Q. (Mr. Kaiser continues.) Mr. Puskar, are you familiar
23 with the application for the location exception filed by
24 EREX for well V-2730?

25

A. Yes, I am.

1 Q. In the event this location exception is not granted would
2 you project the estimated loss of reserves that will
3 result in waste?

4 A. Our estimate is approximately 500 million cubic feet.

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

7 A. V-2730 is projected to 4,200 feet.

8 Q. Will this include formations consistent with the well
9 work permit now pending before the DNME?

10 A. Yes.

11 Q. Will this be sufficient to penetrate and test the common
12 sources of supply in the subject formations?

13 A. Yes, it will.

14 Q. Is the applicant requesting that this location exception
15 cover conventional gas reserves not only to include these
16 designated formations but any other formations excluding
17 coal formations which may be between those formations
18 designated from the surface to the total depth drilled?

19 A. Yes.

20 Q. In your opinion will the granting of this exception or
21 variance be in the best interest of preventing waste,
22 protecting correlative rights and maximizing the recovery
23 of gas reserves underlying V-2730?

24 A. Yes, it is.

25 MR. KAISER: I have no further questions of this witness, Mr.

1 Chairman, at this time.

2 MR. CHAIRMAN: ~~GREENMAN~~ns, Qmembers of the Board?

3 (Witness stands aside.)

4 MR. CHAIRMAN: Do you have anything further?

5 MR. KAISER: Nothing further.

6 MR. EVANS: Mr. Chairman, I move we grant the location
7 exception.

8 MR. CHAIRMAN: A motion to grant the location exception,

9 MR. MASON: Second.

10 MR. CHAIRMAN: A motion and a second. Further discussion?

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

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

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1 ITEM VI

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3 MR. CHAIRMAN: The next item on the agenda is a petition from
4 Equitable Resources Exploration for a well location
5 exception for proposed well V-2687. This is located on
6 the PVRC Mineral Tract. It's docket number VGOB-95/09/-
7 19-0521. We'd ask the parties that wish to address the
8 Board in this matter to come forward at this time.

9 MR. KAISER: Mr. Chairman, Jim Kaiser on behalf of Equitable
10 Resources Exploration. Our witnesses in this matter will
11 once again by Mr. Hall, Mr. McIntyre and Mr. Puskar.
12 This is the second well that we're seeking a location
13 exception on where the location was approved in con-
14 junction with the environmental assessment conducted by
15 the U.S. Forest Service. Our first witness in this
16 matter will be Mr. Hall.

17
18 DON HALL

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

21
22 DIRECT EXAMINATION

23
24 BY MR. KAISER:

25 Q. Mr. Hall, could you again please state your name, who

1 you're employed by and in what capacity?

2 A. Don C. Hall. I'm employed by Equitable Resources as

3 district land man.

4 Q. Have you previously been accepted as an expert witness

5 before this Board?

6 A. Yes, sir.

7 Q. Do your responsibilities include the land involved here

8 and in the surrounding area?

9 A. Yes.

10 Q. Has a permit dated August 23rd, 1995 been submitted to

11 the DMME for well V-2687?

12 A. Yes, it has.

13 Q. And are you familiar with the application for a location

14 exception for well V-2686 and the relief requested?

15 A. Yes, sir.

16 Q. Have all interested parties been noticed as required by

17 Section 4.B of the Virginia Gas and Oil Board Regula-

18 tions?

19 A. Yes, they have.

20 Q. Would you indicate for the Board the ownership of the oil

21 and gas underlying the unit for well V-2687?

22 A. Penn-Virginia Resources owns 100 percent interest in the

23 V-2687.

24 Q. Does Equitable have the working interest in an oil and

25 gas lease covering the tracts in this unit?

1 A. Yes, we do.

2 Q. Does EREX have the right to operate the reciprocal wells?

3 A. Yes.

4 Q. Are there any correlative rights issues?

5 A. No.

6 Q. Who owns the surface underlying this location?

7 A. U.S. Forest Service.

8 Q. Mr. Hall, in conjunction with the exhibit that we have

9 passed out to the Board that you have prepared in

10 conjunction with the subsequent testimony of Mr. McIntyre

11 and Mr. Puskar would you explain for the Board why we are

12 seeking a location exception for this well?

13 A. As you can see on the exhibit that I passed out, V-2687

14 is highlighted in yellow and just to the south of it is a

15 small area highlighted in red. This red area is the

16 only place -- somewhere within area is the only place

17 that we can get a legal location from 2,423 to the west,

18 2,323 to the north, 2,339 to the northeast and 2,324 to

19 the southeast and 2,688 to the south. This area would

20 fall within the 2,640 foot distance from each of these

21 wells, but this area is within the water sheds and the

22 drainage of the stream there and Mr. McIntyre will

23 address the reasons for not wanting the location in that

24 area.

25 Q. Mr. Hall, in your professional opinion is this well

1 location exception required in order safeguard the
2 environment and to facilitate effective land management
3 practices?

4 A. Yes.

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

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

8 (Witness stands aside.)

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

10 MR. KAISER: Mr. McIntyre will be our next witness. Mr.
11 Chairman, with your permission I would like to incorpor-
12 ate his previous testimony as to the methods and process
13 of the environmental assessment and just ask him ques-
14 tions relevant to this particular exception.

15 MR. CHAIRMAN: That's fine. They will be incorporated.

16
17 JAMES F. MCINTYRE

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

20
21 DIRECT EXAMINATION

22
23 BY MR. KAISER:

24 Q. Mr. McIntyre, what is the U.S. Forest Service's interest
25 in TK-749 which is the tract that makes up this unit?

1 A. We're the surface owner of that estate.

2 Q. Mr. McIntyre, would you describe for the Board from the
3 Forest Service's prospective on why this location
4 exception is necessary?

5 A. The area in red is in a drainage that is very steep
6 terrain. It's probably on a 30 percent grade on both
7 sides or steeper as you go down the slope. So that falls
8 within a riparian area -- a riparian zone. Those sites
9 are usually very moist sites. They are the areas where
10 you will find your threatened endangered species. Those
11 areas are also very subject to erosion. So our forest
12 plan dictates to the Forest Service that we do not build
13 or construct roads as an agency to harvest timber or to
14 build recreation areas or anything else on those type of
15 soils. So the Forest plan right-of-way from a Forest
16 Service prospective we wouldn't do that. So we negotiate
17 then with the mineral owner and try to get them to comply
18 and to put the gas wells in areas where they won't impact
19 those type of soils and have to build roads under those
20 conditions. So we asked EREX to move that site up to
21 that ridge top and at that time they told me that that
22 would require a variance. So that's why we're here. But
23 from the Forest Service's standpoint this will impact the
24 surface ownership and this will impact the environment
25 the least -- this particular location. That's why we're

1 here asking for this variance.

2 Q. In your professional opinion is this location exception
3 necessary in order to comply with the plan of development
4 set out in the environmental assessment?

5 A. Yes.

6 Q. Was the general public notified as to the proposed plan
7 of development in this field and specifically these
8 wells?

9 A. Yes.

10 Q. And is it your professional opinion that this location
11 exception represents a location that is necessary to
12 protect the environment and to facilitate effective land
13 management practices?

14 A. Yes, it is.

15 MR. KAISER: Thank you. I have no further questions of this
16 witness, Mr. Chairman.

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

18
19 MARTIN PUSKAR

20 a witness who, after having been previously sworn, was
21 examined and testified as follows:
22
23
24
25

1. DIRECT EXAMINATION

BY MR. KAISER:

Q. Mr. Puskar, could you once again state your name, who you're employed by and in what capacity?

A. Martin P. Puskar. I'm employed by Equitable Resources Exploration as a petroleum engineer.

Q. Are you familiar with the application we've submitted for the location exception for well V-2687?

A. Yes.

Q. In the event this location exception is not granted would you project the estimated loss of reserves that will result in waste?

A. Approximately 500 million cubic feet.

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

A. V-2787 is projected to 4,360 feet.

Q. Is this consistent with the formations included in the well work permit that's now pending before the DMME?

A. Yes.

Q. Will this be sufficient to penetrate and test the common sources of supply in the subject formation?

A. Yes.

Q. Is the applicant requesting that this location exception cover conventional gas reserves not only to include the

1 designated formations but any other formations excluding
2 coal formations which may be between those formations
3 designated from the surface to the total depth drilled?

4 A. Yes.

5 Q. In your opinion will the granting of this location
6 exception be in the best interest of preventing waste,
7 protecting correlative rights and maximizing the recovery
8 of gas reserves underlying V-2687?

9 A. Yes, it does.

10 MR. KAISER: I have no further questions of this witness, Mr.
11 Chairman.

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

13 (Witness stands aside.)

14 MR. CHAIRMAN: Do you have anything further?

15 MR. KAISER: Nothing further at this time.

16 MR. MASON: I move the granting of the exception.

17 MR. LEWIS: Second.

18 MR. CHAIRMAN: A motion and a second. Further discussion?

19 If not, all in favor signify by saying yes. (ALL
20 AFFIRM.) Opposed say no. (NONE.) Unanimous approval.
21 Thank you.

22 MR. KAISER: Thank you, Mr. Chairman. We appreciate you
23 letting Mr. McIntyre give his testimony so we can get him
24 back on his day job.
25

1
2
3 ITEM IV

4 MR. CHAIRMAN: I'll recall it. The next item on today's
5 agenda is a petition from Equitable Resources Exploration
6 for a well location exception for proposed well VAD-2374.
7 This is docket number VGOB-95/09/19-0519. I'd ask the
8 parties that wish to address the Board in this matter to
9 come forward at this time.

10 MR. KAISER: Mr. Chairman and members of the Board, Jim Kaiser
11 on behalf of Equitable Resources. Our witnesses in this
12 matter will be Mr. Hall and Mr. Puskar. I'll hand out
13 Mr. Hall's exhibit that he prepared in conjunction with
14 this application that he can use it in his testimony
15 before we get started here.

16 DON HALL

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

19
20 DIRECT EXAMINATION

21
22 BY MR. KAISER:

23 Q. Mr. Hall, if you could again state for the Board your
24 name, who you're employed by and in what capacity?

25 A. Don C. Hall. I'm employed by Equitable Resources as

1 district land man.

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

4 A. Yes, they do.

5 MR. KAISER: Mr. Chairman, let me back up. By way of intro-
6 duction on this particular well we have submitted a
7 permit application dated 9/15/95 for a dual producing
8 well. We intend to complete this well as both a convent-
9 tional gas well and as a coalbed methane well. That will
10 -- you need to know that up front and that will help
11 explain the reasons why we need the exception and will
12 help facilitate Mr. Hall's testimony. I'm sorry I didn't
13 make that introduction before I got into his testimony.

14 Q. (Mr. Kaiser continues.) Mr. Hall, do your respons-
15 ibilities include the land involved here and in the
16 surrounding area?

17 A. Yes.

18 Q. And there has been a permit submitted to the DMME dated
19 9/15/95?

20 A. Yes, there has.

21 Q. And are you familiar with the application that we have
22 filed for a location exception for well VAD-2374 and the
23 relief that's being requested?

24 A. Yes, I am.

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

1 Section 4.B of the Virginia Gas and Oil Board Regul-
2 ations?

3 A. Yes, they have.

4 Q. Would you indicate for the Board the ownership of the oil
5 and gas underlying the unit for well VAD-2374?

6 A. Virginia Iron, Coal & Coke Company owns 62.95 percent of
7 the unit and Pine Mountain Oil & Gas 37.05 percent.

8 Q. Does Equitable have the right to operate the reciprocal
9 well?

10 A. Yes, we do.

11 Q. Is that P-94?

12 A. Yes.

13 Q. Are there any correlative rights issues?

14 A. No. We have the Iron, Coal & Coke and Pittston acreage
15 leased -- or the Clinchfield acreage leased in this area

16 Q. Could you explain in conjunction with the exhibit that
17 you've prepared for this hearing the specific reasons why
18 we are seeking a location exception for VAD-2374 in order
19 to prevent loss of reserves -- prevent loss of reserves?

20 A. As you explained earlier, this is proposed to be a dual
21 producer wells. So we have basically two units here.
22 We have a coalbed unit and a conventional unit that we
23 will have deal with. From the standpoint of the coalbed
24 unit 2374 is within the interior window which would not
25 require a location exception. But that's only 2,374 feet

1 from P-94 -- coincidentally, that's not a mistake, the
2 2374, the well and the distance is the same for some odd
3 reason. We chose the location 2374 from a conventional
4 standpoint. First of all, it was within the window of
5 the coalbed unit. And secondly, we kept it down the
6 Canny Creek -- at the location where it is because
7 there's a designated wetlands just to the south of it and
8 we stayed as a safe distance from that designated wetland
9 so as to not impact it. A legal location for this well
10 from a conventional standpoint would be in the area
11 highlighted in red in the interior window which would
12 give us the correct spacing of 2,640. But to get to that
13 red area we would have to go through the wetlands area to
14 get there and that's what we're trying to avoid there.
15 And even if we could get to that area that particular
16 area there probably averages about 60 to 65 percent grade
17 anyway. So it would probably be not feasible to build a
18 location there.

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

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

22 MR. EVANS: I've got one real quick. The designated wetlands
23 area, exactly what is that? It looks like, I'm assuming,
24 a small pond or lake?

25 THE WITNESS: It's sort of a swampy area. This was mined in

there and there's some low line areas left in there and Virginia Marine Resources designated a portion as a designated wetlands.

MR. EVANS: Because it looked like it was on a strip bench and I wanted to make sure that that was what I was looking at or whether that was -- all that dotted area, I'm making sure that wasn't all wetlands when you said designated wetlands.

THE WITNESS: Right.

MR. CHAIRMAN: Other questions?

(Witness stands aside.)

MR. CHAIRMAN: You may call your next witness.

MARTIN PUSKAR

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

DIRECT EXAMINATION

BY MR. KAISER:

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

A. Martin P. Puskar. I'm employed by Equitable Resources Exploration as a petroleum engineer.

Q. Are you familiar with the application for the location

1 exception filed by EREX for well VAD-2374?

2 A. Yes.

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

6 A. Between both the coalbed methane and the conventional gas
7 our projections are about 800 million cubic feet.

8 Q. What's the total depth of the proposed initial well under
9 applicant's plan of development?

10 A. 5,395 feet.

11 Q. Will this be sufficient to penetrate and test the common
12 sources of supply and the subject formation?

13 A. Yes, it will.

14 Q. In your opinion will the granting of this location
15 exception be in the best interest of preventing waste,
16 protecting correlative rights and maximizing the recovery
17 of gas reserves underlying VAD-2374?

18 A. Yes, it does.

19 MR. KAISER: I have no further questions of this witness, Mr.
20 Chairman.

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

22 MR. EVANS: Is a single bore going to produce both versus the
23 conventional and when that plays out then go to the
24 coalbed methane?

25 THE WITNESS: They'll be both produced simultaneously. We'll

1 two strings of tubing in it, one for the CBM and one
for the conventional.

MR. EVANS: As far as the CBM goes, you've got a frack proposed -- well, that's not subject to this hearing. Never mind.

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

(Witness stands aside.)

MR. CHAIRMAN: Do you have anything further?

MR. KAISER: Nothing further, Mr. Chairman.

MR. EVANS: Mr. Chairman, I move we grant the location
exception.

MR. CHAIRMAN: A motion to grant the exception.

MR. LEWIS: I second it.

MR. CHAIRMAN: A motion and a second. Further discussion?
If not, all in favor signify by saying yes. (ALL
AFFIRM.) Opposed say no. (NONE.) It's a unanimous
approval.

1
2
3 ITEM VII

4 MR. CHAIRMAN: The last item on today's agenda is a petition
5 from Equitable Resources Exploration for a well location
6 exception for proposed well V-2537. This is docket
7 number VGOB-95/09/19-0522. We'd ask the parties that
8 wish to address the Board in this matter to come forward
9 at this time.

10 MR. KAISER: Mr. Chairman, Jim Kaiser on behalf of Equitable.
11 Our witnesses in this matter will be once again Mr. Hall
12 and Mr. Puskar. We've got two exhibits to present to you
13 at this time. (Pause.) I'll give everybody a minute to
14 look at Mr. Hall's map and to read the letter from Mr.
15 Pondexter.

16 DON HALL

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

19
20 DIRECT EXAMINATION

21
22 BY MR. KAISER:

23 Q. Mr. Hall, could you please state your name, who you're
24 employed by and in what capacity?

25 A. Don C. Hall. I'm employed by Equitable Resources as

1 district land man.

2 Q. Do your responsibilities include the lands involved here
3 and in the surrounding area?

4 A. Yes.

5 Q. Has EREX submitted a permit dated August 3rd, 1995 to the
6 DMME for well V-2537?

7 A. Yes, we have.

8 Q. And are you familiar with the application for the
9 location exception for well V-2537 and the relief being
10 requested?

11 A. Yes, I am.

12 Q. Have all interested parties been notified as required by
13 Section 4.B of the Virginia Gas and Oil Board Regula-
14 tions?

15 A. Yes.

16 Q. Is the oil and gas ownership underlying the tracts
17 including in the unit for V-2537 as follows: VICC 47.19
18 percent, Penn-Virginia Resources 38.26 percent, Walter
19 Bentley, et al 8.25 percent, Losell Hunsucker 0.21
20 percent, James Rose 0.56 percent, Anita Triplet 1.07
21 percent, Bertha Mae Triplet 3.44 percent, Burnace
22 Brumett, Jr. and Reba Jean Brumett 0.40 percent and Red
23 River Coal Company 0.62 percent?

24 A. Yes.

25 Q. Does EREX have the right to operate the reciprocal wells?

1 A. Yes, we do.

2 Q. Does EREX have a working interest in leases covering the
3 wells -- the tracts within this unit?

4 A. Yes, we do.

5 Q. Are there any correlative rights issues?

6 A. No.

7 Q. Mr. Hall, would you explain for the Board in conjunction
8 with your map exhibit which is Exhibit #A that you've
9 prepared for this hearing and in conjunction with a
10 letter from Mr. Pondexter at VICC the reasons why a
11 location exception from V-2537 in order to prevent lost
12 reserves?

13 MR. CHAIRMAN: Before you do that could you go through the
14 percentages one more time for us?

15 MR. KAISER: Sure. VICC is 47.19. Penn-Virginia 38.26.
16 Walter Bentley, et al 8.25. Charles and Losell Hunsucker
17 0.21. James Rose 0.56. Anita Triplet 1.07. Bertha Mae
18 Triplet 3.44. Burnice Brumett, Jr. and Reba Jean Brumett
19 0.40. Red River Coal 0.62.

20 MR. CHAIRMAN: Thank you.

21 Q. (Mr. Kaiser continues.) Mr. Hall, I'll ask you again to
22 please explain for the Board in conjunction with your
23 physical inspection of the site the exhibit you've
24 prepared as Exhibit #A -- denoted as Exhibit #A and the
25 letter from Mr. Pondexter at VICC the reasons why this

1 location exception is necessary for V-2537 in order to
2 prevent lost reserves?

3 A. We've attempted to get a legal location in this parti-
4 cular area here for about three years and VICC has
5 concerns with their coal mining operation in there.
6 They've already stripped a large portion of this area and
7 are proposing to come back and get some more. The area
8 that I show in red on the exhibit is the legal location
9 window from those adjoining wells that you see surround-
10 ing the 2537. Of course, 2533 is the one we're getting
11 -- the reciprocal well which we're getting an exception
12 from. In reading Mr. Pondexter's letter this is the only
13 location that we can find in this particular area that
14 the coal company would approve at the current time. Even
15 though the red area doesn't come all the way down to the
16 well -- the red area only the area where the legal
17 location would be. 2537 is in the northern most position
18 that we could get it that they would approve it. They
19 have operations even closer to the well than what's red
20 there. So all this area is a concern to VICC as far as
21 their mining is concerned. This is where the -- after
22 three years of trying to get a location this is where it
23 ended up.

24 Q. So we have sought locations in between the area of this
25 proposed location that you see on your map and the area

that's colored in red?

A. Yes. We've had several proposals in the red area and some even a little farther away then 2537 is now from 2533, but this is the only place that they will approve it.

Q. So this is the best we can do in conjunction with the location of 2533?

A. Yes.

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

MR. CHAIRMAN: Mr. Hall, do they have active mining in that area?

THE WITNESS: They don't have active mining at the present time, but they have proposed mining operations in that area.

MR. CHAIRMAN: Do you know whether or not they've filed an application?

THE WITNESS: I don't know for sure. But we have a lease with them which gives them the ability to approve locations. So we tied up contractually with them.

MR. CHAIRMAN: Questions, members of the Board?

(Witness stands aside.)

MR. CHAIRMAN: You may call your next witness.

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1 A. Yes, it is.

2 Q. Will this be sufficient to penetrate and test the common
3 sources of supply in the subject formations?

4 A. Yes, it will.

5 Q. Is the applicant requesting that the location exception
6 cover conventional gas reserves not only to include
7 designated formations but any other formations excluding
8 coal formations which may be between those formations
9 from the surface to the total depth drilled?

10 A. Yes.

11 Q. In your opinion will the granting of this location
12 exception be in the best interest of preventing waste,
13 protecting correlative rights and maximizing the recovery
14 of gas reserves underlying V-2537?

15 A. Yes, it does.

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

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

19 (Witness stands aside.)

20 MR. CHAIRMAN: Anything further?

21 MR. KAISER: Nothing further at this time.

22 MR. EVANS: Mr. Chairman, I move we grant the petition.

23 MR. CHAIRMAN: A motion to grant the petition.

24 MR. MASON: Second.

25 MR. CHAIRMAN: Further discussion? If not, all in favor

1 signify by saying yes. (ALL AFFIRM.) Opposed say no.
2 (NONE.) Unanimous approval. Thank you. That concludes
3 today's agenda.

4 MR. FULMER: For the purposes of the Board we have -- the
5 meeting will be at Breaks Interstate Park on October
6 24th. If you need reservations please let us know so we
7 can get those. We have committed so many rooms over
8 there already. We have nine items -- I'm sorry. We
9 have one item filed. We have nine that are going to be
10 filed by Friday. That's ten items.

11 MR. KAISER: We have one.

12 MR. FULMER: We have eleven items projected plus the staff
13 will be presenting to the Board a summary of information
14 regarding royalty clauses at that time.

15 MR. CHAIRMAN: We should put the royalty discussion on first I
16 would think so that the parties that are there can hear
17 all of that before we move into the other cases.

18 MR. FULMER: I'll do that. And please give me your expense
19 accounts.

20 MR. CHAIRMAN: Thank you. That concludes today's hearing.
21

22 (End of Proceedings for
23 September 19, 1995.)
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2 CERTIFICATE
3

4 COMMONWEALTH OF VIRGINIA

5 COUNTY OF WASHINGTON
6

7 I, Deborah J. Bise, Notary Public in and for the
8 Commonwealth of Virginia, at Large, do hereby certify that the
9 foregoing proceedings of the Virginia Gas and Oil Board
10 meeting held on September 19, 1995 at the Southwest Virginia
11 4-H Center, Abingdon, Virginia, were taken by me and that the
12 foregoing is a true and correct transcript of the proceedings
13 had as aforesaid to the best of my ability.

14 I further certify that I am not a relative, counsel, or
15 attorney for either party, or otherwise interested in the
16 outcome of this action.
17

18 GIVEN under my hand this 25th day of August, 1995.
19

20 Deborah J. Bise
21 DEBORAH J. BISE
22 NOTARY PUBLIC
23

24 My commission expires September 30, 1996.
25