

1 VIRGINIA:

2 IN THE COUNTY OF WASHINGTON

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8 JUNE 16 1998

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12 BOARD MEETING

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22 Reported by:
23 SONYA MICHELLE BROWN, Court Reporter
24 Rife & Associates
25

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4 BENNY WAMPLER: Good morning. My name is Benny
5 Wampler. I'm Deputy Director for the Virginia Department of
6 Mines, Minerals and Energy and Chairman of the Gas and Oil
7 Board and I'll ask the Board Members to introduce themselves.

8 MASON BRENT: My name is Mason Brent. I'm from
9 Richmond and I represent the Gas and Oil Industry.

10 MAX LEWIS: Max Lewis from Buchanan County. I
11 represent the Citizens Group.

12 SANDRA RIGGS: I'm Sandra Riggs with the Office of
13 the Attorney General and I'm here to advise the Board.

14 CLYDE KING: I'm Clyde King from Abingdon, Virginia
15 and I am a Consumer Representative.

16 BILL HARRIS: I'm Bill Harris from Wise County and
17 a Consumer Representative.

18 TOM FULMER: Tom Fulmer, Department of Mines,
19 Minerals and Energy and secretary to the Board.

20 BENNY WAMPLER: Thank you very much. First item on
21 today's agenda, the Board will receive the annual...the semi-
22 annual report from the escrow agent, First Virginia Bank and
23 Mountain Empire Trust Department, concerning the Board's
24 escrow account. Mr. King?

BILL KING: Thank you. I'm Bill King and this is

1 Rob Martin with First Virginia Bank Trust and Asset
2 Management Services. As I'm sure everyone is aware, First
3 Virginia Bank became the escrow agent upon the merger and its
4 acquisition of Premier Trust Company and that was actually
5 official on that...on the trust side of it at the end of '97.
6 So, it's been going on six months now and, you know, I'm
7 happy to report that the acquisition merger has gone very
8 well as far as from our trust clients point of view. Both
9 Rob and I were with Premier before and familiar with this
10 account and both of us are continuing in that same capacity.
11 Actually, maybe even better, Rob moved to our Bristol area
12 trust department and is directly handling the day to day
13 administration of the escrow account and I relocated to
14 Roanoke where I'm the regional portfolio manager and handle
15 investment duties in both offices in the region. So, I
16 think, you know, from that perspective, there is continuity
17 and I'm really happy to report that for this account.

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20 Taking a look at the first report, which is the
21 standard summary that we've been supplying, showing the flow
22 and the in-flows and income receipts and disbursements and so
23 forth. We had, obviously, in '97 for the first time, a major

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1 distribution and actually we had, and there may be still in
2 the works, I'm not sure, but I think we are anticipating even
3 more than that, but still with the in-flows, you know, the
4 escrow account is at the end of May very close to three
5 million eight hundred thousand (3,800,000). I don't think
6 there's anything really unusual. You can see in the year
7 '97, as far as the royalty receipts, we're somewhat under the
8 year '96. Everything else, I think, is fairly consistent.
9 The reports have continued to (inaudible) in the same fashion
10 we were doing before with the overall account statement, I
11 think on a monthly basis, and a semi-annual report or break
12 down by unit number and the other...the other report, you
13 know, which we can look at is actually dated as of yesterday
14 with values as of June 12th, last Friday. So, the total is a
15 little higher. It won't match up with the first report
16 because it is not as of May 31st. This is more up to date
17 and we basically just wanted to show you the current
18 breakdown. We...we have had probably over the past six (6)
19 months a couple of maturities and have not actually
20 reinvested in treasuries and I think that the two main
21 reasons for that is we have been anticipating...or I had and
22 maybe now...maybe there aren't any, you know, near term
23 outflows, but we felt there may be. But also, one of the

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1 more important things..one of the advantages we were able to
2 have upon our being with First Virginia is First Virginia
3 has...the first investment you see there, the short term
4 investment pool. It's a money market fund managed internally
5 for our trust customers. It's...you know, it's not a deposit
6 product, but invested in treasury bills and treasury group
7 purchase agreements and, you know, a very, very conservative
8 fund. But it is not an outside fund, so there are no
9 management fees and the current yield showing 5.5 has been
10 that pretty consistently for the past six months. It does
11 like any money market fund, it changes rate daily, but it has
12 been in that range of say 5.35 to 5.6 over the past six
13 months. With that being the case, and the recent decline in
14 interest rates or strength in the bond market, you know, that
15 rate is higher than even a five year treasury note. So, you
16 know, we haven't been, you know, extremely motivated because
17 we...we certainly don't want to go out...I don't think we've
18 actually gone out any further than four or five...four years
19 probably in the past...some four or five years in that range.
20 So...and even as of yesterday, this is just amazing, the
21 treasury...long term treasury as a guide, this is what, you
22 know, a lot of people look at just to see what...what's
23 happening with rates. It wasn't that long ago, maybe less

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1 two months ago, the long...the thirty (30) year treasury bond
2 was at about six percent. Yesterday it was about 5.65
3 percent and there are...as a matter of fact, that was the day
4 before. As a matter of fact, I think it closed below and it
5 was 5.59. There are forecasts I heard a couple a weeks ago
6 that now look...I thought at the time it sounded sort of
7 crazy, but people saying it had gone down to 5 ½ or even 5.
8 So, there is, you know, from the point of view that we have
9 from, you know, from an investment point of view, bonds or
10 the fixed income side are fairly attractive right now and
11 because of the stability or the fact that we don't see a
12 strong possibility for rates really, you know, skyrocketing
13 certainly, or going up very much. Now, it's true that the
14 Fed right now, as far as what it is doing, probably has a
15 biase toward raising rates or tightening, you know, to slow
16 the inflation. But because of the Asian flu, as they call
17 it, that really is slowing down our domestic corporations
18 export business. That really is slowing down things. So,
19 for the time being, rates are down if, you know, if Asia gets
20 well, so to speak, and things pick up, I think we could see a
21 tightening, but still long term, there's just nothing out
22 there to suggest that, you know, we're going see any big
23 increase in rates. So, you know, we're watching that.

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1 I think at one time, we talked about, you know,
2 having...maybe back when the...when the account was two
3 million (2,000,000) or two and half million (2,500,00) that,
4 you know, we'd have up to a million or so in bonds, or
5 roughly fifty (50) percent. Even at the size now or even
6 larger, I still think that fifty (50) percent is probably a
7 good target. You know, we're well under that at this point,
8 but again as long as, you know, we're...if you look at the
9 very...the second page, the very far column shows the totals
10 and the average yield is 5.6 percent, which for a, you know,
11 a very conservative short term portfolio, you know, I think
12 that we're in pretty good shape there. So, again, probably
13 the only thing we would do is if, you know, if an opportunity
14 presents itself, is buy some three (3) or four (4) year
15 treasury notes, but certainly not any more than what would
16 represent fifty (50) percent of the monies. I don't know at
17 this point if I have any more to add. I'll be glad to answer
18 any questions if there are any on any of the reports or any
19 thing that we haven't said.

20 SANDRA RIGGS: With respect to your anticipation of
21 withdraws from the escrow account, those are still pending
22 and there's about, what, fifteen (15) applications pending---

23 BENNY WAMPLER: Right.

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1 SANDRA RIGGS: ---accounting and determination of
2 how much money will flow out of those accounts and I really
3 don't have a feel for what the total of those applications
4 will be. I don't know maybe, Les, do you...do you have any
5 feel for that?

6 LESLIE K. ARRINGTON: No, I sure don't.

7 SANDRA RIGGS: But those are still pending and
8 probably will disburse in their large units. They're the
9 seal gob units in some of the units that have them.

10 BILL KING: Okay. So---.

11 SANDRA RIGGS: Substantial deposits in them.

12 BILL KING: ---okay. So, we're...yeah...we're...we
13 don't know the amount but we're not talking---.

14 BENNY WAMPLER: So, it looks like you're well
15 positioned right now for that.

16 BILL KING: Yeah.

17 BENNY WAMPLER: For distribution.

18 BILL KING: Yeah, okay. Very good.

19 CLYDE KING: What does very liquid mean?

20 BILL KING: Very liquid means either actual cash or
21 money market funds or anything maturing within a year.
22 So---.

23 BILL HARRIS: Yeah. Just wondering about the very,
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1 what that meant.

2 BILL KING: Yeah. Yeah, I don't know...I don't
3 know why we used that adjective in there. Liquid would
4 probably be fine. Yeah. Because I don't think we have any
5 break down of liquid and very liquid. It is just cash
6 equivalent, we'll say.

7 BENNY WAMPLER: Okay. Other questions from members
8 of the Board?

9 BILL HARRIS: Let me ask just one real quick. This
10 is unrelated, but I wondered how the bank was doing on this
11 year two thousand problem that...I'm not sure that if it
12 exists. They say it does.

13

14 BILL KING: Oh, it very definitely does and that's
15 a real good question. As a matter of a fact, I just came
16 from...I had a monthly investment committee meeting at our
17 headquarters and one of things now we're doing is asking that
18 question on our equity management side, or really everything,
19 I guess, but looking at what companies are doing that we
20 invest in because there have been forecasts on both sides.
21 Some saying, well, it will be a good thing because it will
22 force companies to invest in new computer equipment and be
23 more productive and some saying it is going to be a major

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1 drag to the bottom line. But it is a real problem in
2 that...almost any business runs on computers and if anyone
3 hasn't read up on it, the crux of the matter is, the
4 computers are programmed with a two (2) digit year code date
5 and, you know, right after midnight on December 31, 2000, the
6 computers might read the date as 1900 and shut down their
7 operations. So, there's been a lot of programming and so
8 forth. But as to First Virginia, a committee internally was
9 started probably a couple or three years ago. They're been
10 very aware of it. We're actually going to be converting, I
11 think it...again, part of this productivity thing. We have
12 been in a non-windows environment and that's...that's going
13 to change. Part of the...so there's going to be some good
14 things come out of it. But my understanding from reports
15 I've seen is that we will be, as they call, it Y2K, or year
16 2000, compliant in 1999, or actually at the end of this year,
17 and we will be testing in 1999 and plan to be ahead of those
18 problems. But for banks and insurance companies, it is a
19 critical problem. The interesting thing too, my
20 understanding from the reading I've done and the reports I've
21 seen, is that some federal government agencies are in the
22 worse shape. We heard a speaker who is a Washington
23 economist, and I guess political commentary type person, and,
24

1 you know, he was only half kidding but said he would not be
2 flying in the first week of the year. But that agency, the
3 transportation and all of that, IRS...they're just...they
4 have a lot to do yet. So, we're... definitely in the
5 economy, we could see some problems from it. But I am happy
6 to report we're...our trust system is...the system we
7 use...that company is actively working on it and saying
8 they're going be ready. So, we're not there as of today, but
9 we're actively working on it.

10 CLYDE KING: I think the Commonwealth is working on
11 it pretty heavily.

12 BILL KING: I'm sure.

13 CLYDE KING: I attended a meeting where they said
14 all the toll booths would shut down if they didn't get reset
15 real quick.

16 BILL KING: Yeah.

17 CLYDE KING: It would be kind of crazy to go up
18 there at 11:59 and not be able to get through the toll booth.

19 BILL KING: That's right.

20 CLYDE KING: And I think most of those things are
21 being taken care of. It's a big problem.

22 BENNY WAMPLER: Other questions from members of the
23 Board?

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1 (No audible response.)

2 BENNY WAMPLER: Do you have anything further?

3 BILL KING: Just ought mention the Commonwealth...I

4 also remembered I wanted to say, too, that we...Jack Reasor

5 is still with us also and...with First Virginia and is in our

6 Bluefield Office as a regional business development and

7 estate planning and so forth. So, which pretty much

8 completes the crew that we have. We're...that's gone pretty

9 well. So, other than that, I don't think I have anything

10 further. We certainly look forward to continuing to serve

11 the Board and I know the...I believe the contract is up

12 fairly soon and we'll be working on that, and like I said, we

13 plan on, at the Board's wishes, but you know, continuing and

14 everything seems to be going a long pretty well. So---

15 BENNY WAMPLER: We thank you very much for a very

16 good report this morning.

17 BILL KING: Thank you. We're certainly---.

18 BENNY WAMPLER: Thank you for your time. Appreciate

19 it.

20 BILL KING: ---glad to be here.

21 BENNY WAMPLER: The next item on the Board's agenda,

22 the Gas and Oil Board had scheduled an appeal filed by Mr.

23 Jessie Christian that was docket number VGOB-98-04/21-0647

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1 and Mr. Christian has asked, and been granted, a continuance
2 on that.

3 The third item on the agenda, the petition from
4 Buchanan Production Company for pooling of coalbed methane
5 unit identified as T-7, docket number VGOB-98/06/16-0668 has
6 been withdrawn.

7 That takes us to the fourth item on the agenda.
8 The Gas and Oil Board will consider a petition from
9 Pocahontas Gas Partnership for pooling of a coalbed methane
10 unit identified as 0-37, docket number VGOB-98/06/16-0669.
11 We'd ask the parties that wish to address the Board in this
12 matter to come forward at this time and identify yourselves
13 please.

14 MARK SWARTZ: Mark Swartz and Les Arrington on
15 behalf of the applicant, Pocahontas Gas Partnership.

16 BENNY WAMPLER: Are there any others? The record
17 will show there are no others. You may proceed.

18 MARK SWARTZ: Could I have Mr. Arrington sworn?

19 (The witness is duly sworn.)
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LESLIE K. ARRINGTON

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

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. You want to state your name for the record?

A. Leslie K. Arrington.

Q. Who do you work for?

A. Consol.

Q. And what's your title there?

A. Rent specialist.

Q. Did you prepare both the notice of hearing and the application for this pooling today?

A. Yes, I did.

Q. And you signed both of them?

A. Yes, I did.

Q. And did you also either prepare or supervise the preparation of the Exhibits?

A. Yes, I did.

Q. Who is the applicant?

A. Pocahontas Gas Partnership.

Q. And is the applicant requesting that somebody else be designated the operator?

1 A. No, they are not.

2 Q. So, they are requesting that PGP be the
3 operator?

4 A. That's correct.

5 Q. Okay. Pocahontas Gas Partnership is a
6 Virginia Partnership?

7 A. Yes.

8 Q. Who are the partners?

9 A. Consolidation Coal Company and Conoco Inc.

10 Q. And is Pocahontas Gas Partnership registered
11 to do business in the Commonwealth?

12 A. Yes, it is.

13 Q. And has it registered with the DMME and does
14 it have a blanket bond on file?

15 A. Yes, it does.

16 Q. The...did you mail the notice of hearing and
17 the application?

18 A. Yes, we did on...it was mailed by certified
19 mail, return receipt requested, on May 15, 1998.

20 Q. And you filed today with the Board copies of
21 the receipts and a spread sheet that shows the status of that
22 mailing, correct?

23 A. Yes...yes, we did and that was previously
24

1 supplied to the Gas and Oil office.

2 Q. To Mr. Fulmer as well?

3 A. Yes, it was.

4 Q. Was this...was anything published with

5 regard to today's hearing?

6 A. Yes, the notice was published in the

7 Bluefield Daily Telegraph on May 20, 1998.

8 Q. And have you filed previously with Mr.

9 Fulmer's office and then provided the Board today with copies

10 of that publication and a proof of publication?

11 A. Yes, we did.

12 Q. This is a...an application to pool a frac

13 unit?

14 A. Yes, it is.

15 Q. Under Oakwood I?

16 A. Yes, it is.

17 Q. So, we're talking about an eighty (80) acre

18 unit and we're talking about pooling of the coalbed methane

19 gas and associated strata from the Tiller down?

20 A. That's correct.

21 Q. Is there a plat in the application?

22 A. Yes, it is.

23 Q. And it's Exhibit A?

24

1 A. Yes.

2 Q. And it shows one well?

3 A. That's correct.

4 Q. And that well has already been permitted, if

5 I'm not mistaken?

6 A. Correct...that's correct.

7 Q. And in your application you give the permit

8 number as 3548?

9 A. That's correct, it is.

10 Q. Has the well been drilled?

11 A. Yes, it has.

12 Q. Is the well estimate then in reality the

13 cost of drilling the well?

14 A. The cost of drilling the well. The well has

15 not been completed.

16 Q. Okay. So, the two forty-eight (248)

17 includes some costs that have been actually spent and some

18 that are anticipated?

19 A. That's correct.

20 Q. And essentially, its completion and frac

21 that's anticipated?

22 A. Correct.

23 Q. What is the amount of the total estimate to

24

1 drill, frac and complete this well?

2 A. Two hundred and forty-eight thousand seven
3 hundred sixty-two dollars and fifty-seven cents
4 (\$248,762.57).

5 Q. Okay.

6 A. To the total depth of 2178 feet.

7 Q. And did you prepare this estimate?

8 A. Yes, I did.

9 Q. And when did you do that?

10 A. Not sure of the date...May 14, 1998.

11 Q. The status of your interest or the
12 applicant's interest, if you could turn to Exhibit A, page
13 two.

14 A. Yes.

15 Q. Could you tell the Board what coal interest
16 you have either...the applicant either owns, lease it or
17 leases?

18 A. Yes. We have an interest in 99.40832
19 percent in the coal, oil and gas. And we seek to pool
20 0.59168 percent of the coal, oil and gas.

21 Q. Okay. And that's stated in items three (3)
22 and four (4) of the Exhibit?

23 A. That's correct.

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1 Q. So, you're basically pooling roughly six
2 tenths of a percent?
3 A. Correct.
4 Q. If you would turn for a moment to Exhibit
5 B3.
6 A. Uh-huh.
7 Q. That lists the folks that you're seeking to
8 pool?
9 A. Correct, it is.
10 Q. And it identifies the acreage within the
11 eighty (80) acre unit and it identifies their interest in the
12 unit?
13 A. That's correct, it does.
14 Q. Have you, in fact, obtained leases from most
15 of the P. J. Brown heirs?
16 A. Yes, we have.
17 Q. And this is just a small portion of the
18 heirs that you have not been able to lease from?
19 A. Correct.
20 Q. With regard to lease terms, what are the
21 lease terms that you have offered to the other heirs and
22 other folks that you've leased in this unit?
23 A. It's general terms for coalbed methane lease
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1 is one-eighth royalty, dollar per acre with a five year term.

2 Q. And that rental would be payable unit

3 production?

4 A. Yes, it is.

5 Q. Before we move off of Exhibit B3, the column

6 interest in unit would be what the folks you're seeking to

7 pool would use to calculate their participation costs?

8 A. That's correct, it would be.

9 Q. Their carried multiplier and/or their

10 royalty interest?

11 A. Correct.

12 Q. Now, the P.J. Brown heirs are essentially

13 fee mineral owners, meaning coal, oil and gas?

14 A. That's correct, they are.

15 Q. So, there is no need to escrow these---?

16 A. That's correct.

17 Q. ---these interests? But you have submitted

18 an Exhibit E because other folks in the unit who you have

19 agreements from, their interests are going to require some

20 escrow?

21 A. Yes, they are.

22 Q. And to the extent that you are aware of the

23 need for escrow, you have set forth an Exhibit E...the folks

24

1 or the portions of the royalty that would need to be escrowed
2 with the Board's escrow agent?

3 A. That's correct, we did.

4 Q. Again, with reference to the plat map, since
5 this is a frac unit, there is...it's subject to a 300 foot
6 drilling window, correct?

7 A. That's correct.

8 Q. And is this well that's been drilled, within
9 the window?

10 A. Yes, it is.

11 Q. So, it would not require some exception from
12 Mr. Fulmer's office?

13 A. Correct.

14 Q. My last question is whether or not you have
15 an opinion that this proposed plan of development as is
16 disclosed by your application and exhibits is a reasonable
17 plan to remove the methane from...from underneath and within
18 this unit and produce it in such a way that it can be sold?

19 A. Yes, it is.

20 Q. And is it a...is it a reasonable method
21 whereby all owners in the eighty (80) acre unit will receive
22 their fair share of the royalty?

23 A. Yes, it is.

24

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1 Q. That's all I have.

2 BENNY WAMPLER: Any questions from members of the

3 Board?

4 MASON BRENT: I have just one question of this

5 gentlemen. On your...on your plats, could you show the...or

6 could you show window boundaries on there?

7 LESLIE K. ARRINGTON: Okay.

8 (Leslie K. Arrington shows Mason Brent.)

9 MASON BRENT: Thank you.

10 BENNY WAMPLER: Other questions and comments.

11 TOM FULMER: Mr. Chairman, can I just ask a---.?

12 BENNY WAMPLER: Yes, Mr. Fulmer.

13 TOM FULMER: ---informative question? What does

14 Clyborne, Inc.?

15 LESLIE K. ARRINGTON: Well, he's...it's Ron Clyborne

16 and it's just a...his corporate name, I guess, you would say.

17 CLYDE KING: Mr.---.

18 BENNY WAMPLER: Mr. King.

19 CLYDE KING: All of those in Exhibit E, are they

20 going to be pooled?

21 LESLIE K. ARRINGTON: No, sir. We have all those in

22 Exhibit E are leased parties.

23 CLYDE KING: Already...already leased?

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1 LESLIE K. ARRINGTON: They're already leased.

2 MARK SWARTZ: Well, you know, the lease allows us to

3 voluntarily pool their interest. So, the answer is yes, but

4 we don't need you to do it.

5 CLYDE KING: Oh. Okay.

6 MARK SWARTZ: No offense.

7 BENNY WAMPLER: You represented that they require

8 escrowing?

9 MARK SWARTZ: But they do require escrow, yes.

10 BENNY WAMPLER: Right. Other questions from members

11 of the Board?

12 (No audible response.)

13 BENNY WAMPLER: Do you have anything further?

14 MARK SWARTZ: No, I don't.

15 MASON BRENT: Mr. Chairman, I move that we grant the

16 application.

17 MAX LEWIS: I second it.

18 BENNY WAMPLER: Motion and second. Any further

19 discussion?

20 (No audible response.)

21 BENNY WAMPLER: All in favor signify by saying yes?

22 (All members signify yes.)

23 BENNY WAMPLER: Opposed, say no.

24

1 (No audible response.)

2 BENNY WAMPLER: Your motion is granted.

3 MARK SWARTZ: Thank you very much.

4 BENNY WAMPLER: Thank you. Next item on the agenda,
5 the Board will consider a petition from Equitable Resources
6 Energy Company for pooling of a coalbed methane gas unit
7 identified as VC-3169, docket number VGOB-98/06/16-0670.
8 We'd ask the parties that wish to address the Board in this
9 matter to come forward at this time, please.

10 JIM KISER: Mr. Chairman and members of the Board,
11 Jim Kiser on behalf of Equitable Resources Energy Company.
12 Our witnesses today in both our force pooling applications
13 will be Mr. Dennis Baker and Mr. Mike Stamper. I ask that
14 they be sworn at this time.

15 (The witnesses are duly sworn.)

16 BENNY WAMPLER: The record will show there are no
17 others. You may proceed.

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20 DENNIS R. BAKER

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

23 DIRECT EXAMINATION

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1 QUESTIONS BY MR. KISER:

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

4 A. My name is Dennis R. Baker. I'm employed by
5 Equitable Resources Energy Company as Senior Landman.

6 Q. And do your responsibilities include the
7 land involved in the drilling unit here and in the
8 surrounding area?

9 A. Yes, it does.

10 Q. Are you familiar with Equitable's
11 application for pooling order for Equitable well number VC-
12 3169, which was dated March 18th, 1998?

13 A. Yes, I am.

14 Q. And is Equitable seeking to force pool the
15 drilling rights underlying the unit as depicted at Exhibit A
16 of the application?

17 A. Yes.

18 Q. And does the location proposed for well
19 number VC-3169 fall within the Board's order for the Nora
20 Coalbed Gas Field?

21 A. Yes, it does.

22 Q. Now, prior to filing this application, were
23 efforts made to contact each of the respondents listed in
24

1 Exhibit B in an attempt made to work out a voluntary lease
2 agreement?

3 A. Yes.

4 Q. Does Equitable own drilling rights in the
5 unit?

6 A. Yes, we do.

7 Q. What is the interest of Equitable in the gas
8 estate within the unit?

9 A. The interest leased is 83.94 percent.

10 Q. Okay. And what is the interest of Equitable
11 in the coal estate within the unit?

12 A. The interest leased to Equitable in the coal
13 estate is 100 percent.

14 Q. And are all unleased parties set out in
15 Exhibit B?

16 A. Yes, they are.

17 Q. And subsequent to the filing of the
18 application, have you continued to attempt to reach a
19 voluntary lease agreement with the unleased respondents
20 leased in Exhibit B?

21 A. Yes, we have.

22 Q. And as a result of these efforts, have you
23 been able obtain any additional leases?

24

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1 A. No.

2 Q. Okay. So, at this time, what is the
3 interest in the gas estate that remains unleased that we are
4 seeking to force pool?

5 A. 16.06 percent of the gas estate unleased.

6 Q. Okay. Mr. Baker, were efforts made to
7 determine if the individual respondents were living or
8 deceased, or their whereabouts, and if deceased, were efforts
9 made to determine the names and addresses and whereabouts of
10 the successors to any deceased individual respondent?

11 A. Yes.

12 Q. Okay. Do we have any unknown heirs in this
13 unit?

14 A. No, we do not.

15 Q. In your professional opinion, was due
16 diligence exercised to locate each of the respondents?

17 A. Yes.

18 Q. And are the addresses set out in Exhibit B
19 in the application the last known addresses for the
20 respondents?

21 A. Yes, it is.

22 Q. Are you requesting this Board to force pool
23 all unleased interests listed in Exhibit B?

24

1 A. Yes, we are.

2 Q. And are you familiar with the fair market
3 value of drilling rights in the unit here and in the
4 surrounding area?

5 A. Yes, I am.

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

8 A. Yes, a five dollar (\$5) per acre
9 consideration, for a five year term, one-eighth of eight-
10 eighth royalty.

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

15 A. Yes.

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

20 A. Yes.

21 Q. Okay, as to the respondents in Exhibit B who
22 have not voluntarily agreed to lease, do you recommend that
23 they be allowed the following options with respect to their
24

1 ownership interest within the unit, one, participation; two,
2 a cash bonus of five dollars (\$5) per net mineral acre plus a
3 one-eighth of eight-eighths royalty; three, in lieu of the
4 cash bonus and one-eighth of eight-eighths royalty share in
5 the operation of the well on a carried bases as a carried
6 operator on the following conditions: Such carried operator
7 should be entitled to the share of production from the tracts
8 pooled accruing to his interest exclusive of any royalty or
9 overriding royalty reserved in any leases, assignments
10 thereof or agreements relating thereto of such tracts, but
11 only after the proceeds applicable to his share equal - (A),
12 300 percent of the share of such costs applicable to the
13 interest of the carried operator of a leased tract or portion
14 thereof; or (B), 200 percent of the share of such costs
15 applicable to the interest of the carried operator of an
16 unleased tract or portion thereof?

17 A. Yes, that's correct.

18 Q. Do you recommend that all elections by
19 respondents be in writing and sent to the applicant at
20 Equitable Resources Energy Company, Eastern Region, P. O. Box
21 1983, Kingsport, Tennessee 37662, attention Dennis R. Baker,
22 Regulatory?

23 A. Yes.

24

--

1 Q. And should this be the address for all
2 communications with the applicant concerning any force
3 pooling order?

4 A. Yes, it is.

5 Q. Do you recommend that the order provide that
6 if no written elections is properly made by a respondent,
7 then such respondent shall be deemed to have elected to cash
8 royalty option in lieu of participation?

9 A. Yes.

10 Q. Should the unleased respondents be given
11 thirty days from the date of the recording of the Board order
12 to file written elections?

13 A. Yes.

14 Q. If an unleased respondent elects to
15 participate, should they be given forty-five days to pay the
16 applicant for the respondent's proportionate share of well
17 costs?

18 A. Yes.

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

22 A. Yes.

23 Q. Should the applicant be allowed a hundred
24

1 and twenty (120) days following the recording of the Board
2 order, and thereafter annually on that date, until production
3 is achieved to pay or tender any cash bonus becoming due
4 under the order?

5 A. That's correct.

6 Q. Do you recommend that the order provide that
7 if a respondent elects to participate, but fails to pay their
8 proportionate share of well costs satisfactory to the
9 applicant for payment of such costs, the respondent's
10 election to participant should be treated as having been
11 withdrawn and void and such respondent should be treated just
12 as if no election...initial election had been filed under the
13 order?

14 A. Yes.

15 Q. Do you recommend that the order provide that
16 where a respondent elects to participate, but defaults in
17 regard to their payment of these well costs, any cash sum
18 becoming payable to such respondent be paid within sixty (60)
19 days after the last date on which such respondent could have
20 been paid or made satisfactory arrangements for the payment
21 of those well costs?

22 A. Yes.

23 Q. Mr. Baker, do we...we've got conflicting
24

1 claimants between the oil and gas estate and the coal estate?

2 A. Yes, we do.

3 Q. So, the operator...we need to create an
4 escrow account that the operator will pay into. All cost or
5 proceeds attributable to this conflicting interest shall be
6 held for the respondent's benefit until such funds can be
7 paid to the party by order of this Board, or until the title
8 defect or conflicting claim is solved to the...is resolved to
9 the operator's satisfaction?

10 A. Yes.

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

13 A. Equitable Resources Energy Company.

14 JIM KISER: Nothing further of this witness at this
15 time, Mr. Chairman.

16 BENNY WAMPLER: Any questions from members of the
17 Board?

18 (No audible response.)

19 BENNY WAMPLER: Call your next witness.

20

21 MICHAEL E. STAMPER

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

24

--

1 QUESTIONS BY MR. KISER:

2 Q. Mr. Stamper, could please state your name
3 for the Board, who you are employed by and in what capacity?

4 A. My name is Michael E. Stamper. I'm employed
5 by Equitable Resources Energy Company and I'm a Senior
6 Geologist.

7 Q. And Mr. Stamper, I'm sure the Board knows
8 that you're taking Mr....our regular witness Mr. Dahlin's
9 place today. He is on vacation at a family reunion, but you
10 have previously testified before the Board and your
11 qualifications as an expert witness in the areas of
12 operations and production were accepted by the Board at the
13 March docket, is that correct?

14 A. Yes, it was.

15 JIM KISER: Mr. Chairman, I'd move that Mr. Stamper
16 be accepted as an expert witness in those areas.

17 BENNY WAMPLER: Okay. You may continue.

18 Q. And do your responsibilities include the
19 lands involved here and in the surrounding area?

20 A. Yes, they do.

21 Q. Are you familiar with the proposed
22 exploration and development of the unit involved here under
23 the proposed plan of development?

24

--

1 A. Yes, it does.

2 Q. And what is the total depth of the well
3 under the plan of development?

4 A. Well will be drilled to the depth of two
5 thousand eight hundred twenty-eight (2,828), feet and this is
6 to include formations consistent with the well work permit
7 now pending before the DMME.

8 Q. And what are the estimated reserves of the
9 unit?

10 A Four hundred and eighty-six million (486,000,000) cubic feet.

11 Q. And are you familiar with the well costs for the well under the
12 applicant's plan of development?

13 A. Yes, I am.

14 Q. Was a AFE been reviewed, signed and submitted to the Board
15 with the application?

16 A. Yes, it was.

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

20 A. Yes, it was.

21 Q. In your professional opinion, does this AFE represent a reasonable
22 estimate of the well costs for the proposed well under the plan of development?

23 A. Yes, it does.

24

1 Q. At this time, could you set out for the Board both the dry hole
2 costs and completed well costs for VC-3169?

3 A. The dry hole costs we put forth at eighty-nine thousand three
4 hundred sixty-eight (\$89,368). The completed well cost will one hundred and ninety-one
5 thousand one hundred dollars (\$191,100).

6 Q. Do these costs anticipate a multiple completion?

7 A. Yes, it does.

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

11 A. Yes, it does.

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

13 BENNY WAMPLER: Any questions from members of the Board?

14 MASON BRENT: Did you say your application for this well is pending? Is
15 that what you said?

16 JIM KISER: Permit application.

17 MICHAEL E. STAMPER: Permit application.

18 MASON BRENT: Permit application.

19 MICHAEL E. STAMPER: Yes.

20 CLYDE KING: I have a question.

21 BENNY WAMPLER: Mr. King.

22 CLYDE KING: A hundred and...this is a hundred and thirty-three million
23 and seven fifty-three (133,753,000) drilling cost. Is this a different type of drilling
24

1 that...that Pocahontas...the folks just before you do? Is it a little different type drilling? I
2 notice theirs was two eighty...two forty something.

3 JIM KISER: I think theirs was two forty some, ours is one ninety-one.

4 MICHAEL E. STAMPER: One ninety-one.

5 JIM KISER: One hundred.

6 CLYDE KING: Basically the same, but different types of strata.

7 JIM KISER: Well, I think their well was a frac well, which would be
8 congruent to this well. So, I know we have some sometimes run that high.

9 MICHAEL E. STAMPER: Yeah, without...without comparing the AFEs,
10 we wouldn't know where the additional costs come in. Depth...depth has a lot to do with
11 them and different types of operations.

12 BILL HARRIS: If I might continue that same question. Do you all contract
13 with the same folks? I mean, we've never explored that. So, I don't---.

14 JIM KISER: I don't think so.

15 BILL HARRIS: I was just wondering...to do the drilling or to---.

16 MICHAEL E. STAMPER: I don't know. I don't know who they use.

17 TOM FULMER: They use different ones.

18 (Inaudible conversation between Mr. Fuller and Mr. Harris.)

19 BILL HARRIS: So, this isn't...I didn't let you finish your question.

20 CLYDE KING: That's fine. No.

21 BILL HARRIS: This is not unusual, I guess. I don't know who I'm asking.
22 Would it be that---?

23 CLYDE KING: I thought it was quite a bit of difference in the two.

24

1 TOM FULMER: Not with a frac well. They don't drill gob wells. They drill
2 frac wells...ERECs does. Consol drills gob wells and frac wells. They have a difference in
3 those two wells as far as costs are.

4 CLYDE KING: For...just for my dumb information. What's the difference?

5 TOM FULMER: In the gob well?

6 CLYDE KING: Uh-huh.

7 TOM FULMER: Usually the gob well is...the gob is
8 not stimulated. So, you don't have the stimulation cost. It
9 has a little bit different casing program. Gob wells, as we
10 say, are usually short lived and many more of them.

11 CLYDE KING: Old abandoned mines.

12 TOM FULMER: See, they don't drill...Equitable does
13 not drill based upon mining plans and that's where your gob
14 well comes in.

15 CLYDE KING: And Consol does?

16 TOM FULMER: Consol does, yes.

17 CLYDE KING: But fracing is when they go down
18 and---.

19 SANDRA RIGGS: In advance of mining?

20 MICHAEL E. STAMPER: Yes.

21 CLYDE KING: What we talked about when we were up
22 there at that time?

23 TOM FULMER: Yeah.

24

--

1 CLYDE KING: Thanks for the information. I've often
2 wondered about that.

3 BENNY WAMPLER: Any other questions from members of
4 the Board?

5 (No audible response.)

6 BENNY WAMPLER: Do you have anything further?

7 JIM KISER: Mr. Chairman, we'd ask that the
8 application be approved as submitted.

9 CLYDE KING: I so move, Mr. Chairman.

10 MASON BRENT: Second.

11 BENNY WAMPLER: Motion and second. Any further
12 discussion?

13 (No audible response.)

14 BENNY WAMPLER: All in favor signify by saying yes.

15 (All members signify by saying yes.)

16 BENNY WAMPLER: Opposed, say no.

17 (No audible response.)

18 BENNY WAMPLER: You have approval. Thank you. The
19 next item on the agenda is a petition from Equitable
20 Resources Energy Company for pooling of a conventional gas
21 unit identified as V-3833. This is docket number VGOB-
22 98/06/16-0671. We'd ask the parties that wish to address the
23 Board in this matter to come forward at this time, please.

24

1 JIM KISER: Jim Kiser, Mr. Chairman and members of
2 the Board once again on behalf of Equitable Resources Energy
3 Company. Our witnesses again will be Mr. Baker and Mr.
4 Stamper.

5 BENNY WAMPLER: If you will just identify yourself
6 for the Board.

7 MILTON SOWARDS: I'm Milton Sowards. I'm a land
8 owner.

9 BENNY WAMPLER: The Board has a letter from Mr.
10 Sowards in the application. You'll note that an objection to
11 the permit.

12 (The Board gives a copy of the letter to Jim
13 Kiser.)

14 BENNY WAMPLER: Mr. Sowards, the way we'll do this
15 is, we will ask them to go ahead and put on their application
16 and then you'll have an opportunity to ask questions, as well
17 as the Board.

18 MILTON SOWARDS: Okay. When I wrote that, I didn't
19 know all the rules.

20 BENNY WAMPLER: I understand.

21 MILTON SOWARDS: I was getting all of this stuff in
22 the mail and didn't know what was going on. So---.

23 BENNY WAMPLER: That's fine. That's what this is
24

1 about, to try to sort all of this out. We want to try to
2 make sure you get your questions answered while we're here
3 today.

4

5 DENNIS R. BAKER

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

8 DIRECT EXAMINATION

9 QUESTIONS BY MR. KISER:

10 Q. Mr. Baker, if you would again please state
11 your name for the record and who you are employed by and in
12 what capacity?

13 A. Dennis R. Baker. I'm employed by Equitable
14 Resources Energy Company as Senior Landman.

15 Q. And are you familiar with Equitable's
16 application for the establishment of a drilling unit in
17 seeking a pooling order for Equitable well number V-3833,
18 dated May 14, 1998?

19 A. Yes, I am.

20 Q. And does Equitable own drilling rights in
21 the unit involved here?

22 A. Yes, we do.

23 Q. And prior to the filing of the application,
24

--

1 were efforts made to contact the respondents in an attempt
2 made to work out a voluntary lease agreement with each of the
3 unleased respondents listed in Exhibit B?

4 A. Yes.

5 Q. And what is the interest of Equitable within
6 the unit?

7 A. The interest leased is 59.25 percent.

8 Q. And are you familiar with the ownership of
9 drilling rights of parties other than Equitable underlying
10 this unit?

11 A. Yes, I am.

12 Q. And what is the percent at this time remains
13 unleased?

14 A. The unleased portion of the unit 40.75
15 percent.

16 Q. Now, subsequent to the filing of your
17 application, have you continued to attempt to reach an
18 agreement with the unleased respondents listed in Exhibit B?

19 A. Yes.

20 Q. Could you sort of elaborate on where we are
21 on those efforts with some of these individuals for the
22 Board?

23 A. Some of the individuals...currently we...as
24

1 of about 7:30 yesterday evening, one of the unleased
2 respondents has signed a voluntary lease. It is not shown to
3 be a leased interest today because I haven't saw
4 anything...any paperwork. I haven't saw...we haven't got a
5 lease number or anything assigned to it. It was just signed
6 last night. That's the interest that's shown on Exhibit B,
7 identified as Tract Number Ten, Roy Bolling. He and his wife
8 have signed an oil and gas lease. Another meeting is taking
9 place today probably around 11:00 or 12:00 time frame for
10 Tract Number Nine, Teddy Wayne Bolling. And hopefully, after
11 the hearing today, we will be meeting with Mr. Soward to
12 discuss any concerns or answer any questions that he might
13 have.

14 Q. So, your efforts will continue to...will
15 continue towards negotiating a voluntary lease with all the
16 unleased interest listed in Exhibit B?

17 A. Yes.

18 BENNY WAMPLER: If I may interrupt you...just
19 interject that the Board also has a...we have a letter from
20 Mr. Patrick Cline, with Cline, Atkins & Cline representing
21 Teddy Wayne Bolling and Elizabeth Bolling and said they
22 would...the letter basically says they would like to preserve
23 their right to note an objection to the requested relief.

24

--

1 The record will show that they are not here, but we did
2 receive---.

3 JIM KISER: I did receive that one.

4 BENNY WAMPLER: You have a copy of that letter.
5 They said the landowners object to the pooling of the rights
6 and any other action which may operate to prejudice their
7 property rights. You say you do have a meeting with them
8 after the...today's meeting or with the---.

9 DENNIS R. BAKER: Yes. Our field agency---.

10 BENNY WAMPLER: ---I think you said Teddy Wayne
11 Bolling. Was that also Elizabeth Bolling, as far you know?

12 DENNIS R. BAKER: Yes.

13 BENNY WAMPLER: You may proceed.

14 Q. So, Mr. Baker, all the unleased parties are
15 set out in Exhibit B?

16 A. Yes, they are.

17 Q. And were efforts made to determine if the
18 individual respondents were living or deceased or their
19 whereabouts, and if deceased, were efforts made to determine
20 the names and addresses and whereabouts of the successors to
21 any deceased individual respondents?

22 A. Yes, it was.

23 Q. Were reasonable and diligent efforts made
24

1 and sources checked to identify and locate unknown heirs,
2 which we do have in this case on Tract Thirteen, I believe it
3 is...Tract Fourteen, and including primary sources such as
4 deed records, probate records, assessor's records,
5 treasurer's records and secondary sources such telephone
6 directories, city directories, family and friends?

7 A. Yes.

8 Q. So, in your professional opinion, was due
9 diligence exercised to locate each of the respondents named
10 herein?

11 A. Yes, it was.

12 Q. And are the addresses set out in Exhibit B
13 to the application the last known addresses for the...all
14 respondents?

15 A. Yes.

16 Q. And are you requesting this Board to force
17 pool all unleased interest listed in Exhibit B?

18 A. Yes, we are.

19 Q. And are you familiar with the fair market
20 value of drilling rights in the unit involved here and in the
21 surrounding area?

22 A. Yes, I am.

23 Q. Could you advise the Board as to what those
24

1 are?

2 A. A five dollar (\$5) per acre consideration, a
3 five (5) year term, one-eighth of eight-eighths royalty.

4 Q. Did you gain this familiarity by acquiring
5 oil and gas leases and other agreements involving the
6 transfer of drilling rights in the unit here and in the
7 surrounding area?

8 A. Yes, I did.

9 Q. And in your professional opinion, do the
10 terms you've testified to represent the fair market value of
11 and the fair and reasonable compensation to be paid for
12 drilling rights within the unit?

13 A. Yes.

14 JIM KISER: Now, at this time, Mr. Chairman,
15 normally I would ask that the testimony regarding the
16 election be...from the previous hearing be incorporated and I
17 think Mr. Baker has told me that Mr. Sowards spent some time
18 in Equitable's Big Stone Gap office yesterday talking with
19 Mr. Don Hall about the different options that would be
20 afforded to you regarding the...any force pooling order. Do
21 you want me to go back through those or do you feel
22 comfortable with them?

23 MILTON SOWARDS: Well, I have some questions, but

24

--

1 I'm not sure...I don't know which...whether to ask you or the
2 Board. I'd like to ask both, if I may.

3 BENNY WAMPLER: Well, we will continue this and
4 allow you---.

5 JIM KISER: Okay. And then he can ask any questions
6 and we can elaborate at that time.

7 BENNY WAMPLER: ---right, we will allow you to
8 incorporate that previous testimony.

9 JIM KISER: Okay. Thank you.

10 Q. Mr. Baker, we do have a situation here where
11 we've got some unknown, unlocateable parties. Therefore, do
12 we need to create an escrow account for these respondent's
13 benefit until the money can be paid to the party or until
14 they can be located so that this defect is cured to the
15 operator and Board's satisfaction?

16 A. Yes.

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

19 A. Equitable Resources Energy Company.

20 JIM KISER: Nothing further of this witness at this
21 time, Mr. Chairman.

22 BENNY WAMPLER: Questions from members of the Board
23 of this witness?

24

--

1 SANDRA RIGGS: There was a question with respect to
2 Tract Six. You are showing a...one unknown and unlocateable
3 and then a widow and their interest appears to be the same.
4 Is that the same interest or do they each hold an 11.59
5 percent?

6 DENNIS R. BAKER: They each hold the same interest.

7 BENNY WAMPLER: Other questions?

8 (No audible response.)

9 BENNY WAMPLER: Call your next witness.

10

11 MICHAEL E. STAMPER

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

14 QUESTIONS BY MR. KISER:

15 Q. Mr. Stamper, could you again state your name
16 for the Board, who you're employed by and in what capacity?

17 A. My name is Michael E. Stamper. And I'm
18 employed by Equitable Resources Energy Company as a Senior
19 Geologist.

20 Q. And your qualifications as an expert witness
21 in the areas of operations and productions have been
22 previously accepted by the Board?

23 A. Yes, they have.

24

--

1 Q. And do your responsibilities include in the
2 land involved here and in the surrounding area?

3 A. Yes, it does.

4 Q. And are you familiar with the proposed plan
5 of exploration and development for the unit V-2833?

6 A. Yes, I am.

7 Q. And what is the total depth of the well
8 under the applicant's plan of development?

9 A. The well is proposed to be drilled to a
10 depth of five thousand four and fifty (5,450) feet and this
11 will include the formations consistent with the well work
12 permit.

13 Q. And this will be sufficient to penetrate and
14 test the common sources as supplied in the subject
15 formations?

16 A. Yes.

17 Q. And is the applicant requesting the force
18 pooling of a conventional gas reserves, not only to include
19 any designated formations, but any other formations excluding
20 coal formations which may be between those formations
21 designated from the surface to the total depth drilled?

22 A. Yes.

23 Q. What are the estimated reserves of this
24

1 unit?

2 A. Five hundred and fifty million (550,000,000)
3 cubic feet.

4 Q. And are you familiar with the well costs for
5 the proposed well under the plan of development?

6 A. Yes, I am.

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

9 A. Yes, it has.

10 Q. Was this AFE prepared by an engineering
11 department knowledgeable in the preparation of the AFE's and
12 knowledgeable in regard to well costs in this area?

13 A. Yes, it was.

14 Q. And in your professional opinion, does this
15 AFE represent a reasonable estimate of the well costs for the
16 proposed well under the applicant's plan of development?

17 A. Yes, it does.

18 Q. At this time could you set out for the Board
19 both the dry hole costs and completed well costs associated
20 with V-3833?

21 A. The dry hole cost is one hundred forty-seven
22 five hundred dollars (\$147,500). The completed well cost is
23 two hundred and seventy-one thousand one hundred fifty

24

--

1 dollars (\$271,150).

2 Q. And do these costs anticipate a multiple
3 completion?

4 A. Yes, they do.

5 Q. And does this AFE include a reasonable
6 charge for supervision?

7 A. Yes, it does.

8 Q. And Mr. Stamper, in your professional
9 opinion, will the granting of this application be in the best
10 interest of conservation, the prevention of waste and the
11 protection of correlative rights?

12 A. Yes, it does.

13 JIM KISER: Nothing further of this witness at this
14 time, Mr. Chairman.

15 BENNY WAMPLER: Any questions from members of the
16 Board?

17 (No audible response.)

18 BENNY WAMPLER: Mr. Sowards?

19 MILTON SOWARDS: Basically, I have some questions.
20 They are going to be...if I read that map correctly, they are
21 going to be very close to my land and I'm...I believe, number
22 Five.

23 JIM KISER: That's correct.

24

--

1 MILTON SOWARDS: And there is a pond on...well, I
2 guess, I should back up. Do you need water to drill a well?
3 Are you going to be using my pond, which will be very close
4 to where that well is?

5 BENNY WAMPLER: We are going to ask them to answer
6 your questions on those types of questions. Okay? Now, is
7 the location of the well itself on his...on his property?

8 JIM KISER: No.

9 DENNIS R. BAKER: No, it is not.

10 BENNY WAMPLER: So, you are aware of that?

11 MILTON SOWARDS: Yes.

12 BENNY WAMPLER: Now, do you have any plans to
13 utilize water from his pond in the course of drilling of this
14 well or completing this well?

15 DENNIS R. BAKER: I believe the water source...I'm
16 not familiar with the application that's on...that is on file
17 as to what...where they got the water that they were going to
18 use for the drilling. It should be in the application that's
19 on file with Mr. Fulmer's office.

20 MILTON SOWARDS: There's not a whole lot of water on
21 the land. They...when they stripped it, they put the pond
22 there to catch runoff, I guess. I was just curious since it
23 was so close. Since it is a sediment pond, if they were
24

1 going to use it.

2 BENNY WAMPLER: Is that...and that pond is on your
3 land...that's your property?

4 MILTON SOWARDS: It is on my land, but it is going
5 to be very close to where they're drilling.

6 BENNY WAMPLER: Do you have any objection to them
7 using that water if, in fact, it is in the application?

8 MILTON SOWARD: I would be willing to discuss it
9 with them. You know, if they are going to come on my land, I
10 would like to---.

11 JIM KISER: I do know that would be the only reason
12 they would...there are no...at this point, any plans of
13 surface operations on your property by way of access road
14 or...

15 MASON BRENT: Where is the access road?

16 JIM KISER: It is coming from the east, isn't it?

17 DENNIS R. BAKER: I think it is coming from the
18 east.

19 JIM KISER: I think all surface operations at this
20 time are on Tract Number One.

21 MILTON SOWARDS: The...I guess, yeah. One question
22 here is, where are you going to get the water from? Are you
23 going to truck it in or do you drill the well for the water?
24

1 TOM FULMER: No. Probably truck it in. On the top
2 of the mountain, there is no (inaudible.)

3 BENNY WAMPLER: Has that application for the well
4 been approved, Tom?

5 TOM FULMER: I don't think that one has been.

6 DENNIS R. BAKER: I believe it has been maybe signed
7 off on by the inspector, but I don't believe Tom has signed
8 off on it yet.

9 TOM FULMER: It is not familiar with...it's
10 (inaudible).

11 BENNY WAMPLER: So, Mr. Sowards, what I'm getting at
12 is, you...you can check with the Gas and Oil office in
13 Abingdon before you leave today and look at that application
14 and see what the plans are for the water source for the well,
15 which will be in the permit application not part of the
16 pooling application.

17 JIM KISER: He should have a copy that.

18 MILTON SOWARDS: The question...can I ask questions
19 on...there is three options here that I can elect. If I
20 elect to take option number three, will I receive financial
21 reports from Equitable as to their recouping their two
22 hundred (200) percent?

23 SANDRA RIGGS: What is the option number three, just
24

1 so we know?

2 JIM KISER: The carried operator.

3 SANDRA RIGGS: Carried?

4 DENNIS R. BAKER: I believe the well is monitored

5 for pay out in...I believe it can be arranged to where he got

6 a monthly or semi-monthly, or an accounting each quarter or

7 something on how much the well is earning...had been

8 recouped.

9 BENNY WAMPLER: If you do that, what...do you have a

10 preference to monthly statement or anything?

11 MILTON SOWARDS: Well, whatever you don't...monthly,

12 quarterly, whatever is convenient for them as long as I, you

13 know, as long as I receive some sort of a financial

14 statement. Preferably monthly, if possible.

15 BENNY WAMPLER: And are you saying you will provide

16 that if he becomes a carried operator?

17 DENNIS R. BAKER: Yes.

18 MILTON SOWARDS: I have a question here. Will I

19 receive...after this hearing, will I receive something from

20 you that I elect one of these three options?

21 BENNY WAMPLER: Yes.

22 JIM KISER: Yes, sir.

23 MILTON SOWARDS: That will come after this meeting.

24

1 BENNY WAMPLER: That's correct.

2 JIM KISER: If the Board were to grant the
3 application and issue an order, we have seven (7) days from
4 the date that we receive the recorded order to send you an
5 election letter by certified mail with a copy of the order
6 attached to it, which will again set out the elections.

7 MILTON SOWARDS: How many days do I have to respond?

8 JIM KISER: Well, you will have thirty (30) days
9 from the date it is recorded to respond and it will set out
10 the options that are available to you again and should you
11 have further questions on that, my phone number, and I think
12 Equitable's phone number, are both in the letter.

13 MILTON SOWARDS: The...as far as receiving a royalty
14 after the two hundred (200) percent, since I own 13.8 percent
15 of the land, will I receive 13.8 percent of the profits after
16 expenses.

17 SANDRA RIGGS: Well, if you are carried, you
18 wouldn't get a royalty. You would be a working interest.

19 MILTON SOWARDS: What...what does that mean?

20 SANDRA RIGGS: Well, the royalties of one-eighth
21 interest in the well, a working interest, is the balance of
22 the well, and if you either participate or are carried, you
23 end up having a working interest as opposed to...you are like

24

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1 a partner in the well---.

2 MILTON SOWARDS: Yeah, I understand.

3 SANDRA RIGGS: ---as opposed to just receiving a

4 royalty, which is like a lease payment.

5 MILTON SOWARDS: Well, okay, number three here is my

6 question.

7 SANDRA RIGGS: Carried?

8 MILTON SOWARDS: Yeah. It says on a unleased frac,

9 which this is, that they would have to recoup two hundred

10 (200) percent of their costs.

11 SANDRA RIGGS: Which was the AFE number they---.

12 MILTON SOWARDS: Then I would receive it...start

13 receiving payments after that. Is that correct?

14 SANDRA RIGGS: Yeah.

15 MILTON SOWARDS: And what do they call those

16 payments, maybe I'm---?

17 SANDRA RIGGS: Working interest.

18 MILTON SOWARDS: Working interest payments. Okay.

19 SANDRA RIGGS: Working interest payments. Yes.

20 MILTON SOWARDS: I'm sorry.

21 SANDRA RIGGS: That's all right.

22 MILTON SOWARDS: How much...since I have 13.8

23 percent of the affected land, will I receive 13.8 percent of

24

1 the---?

2 JIM KISER: Your net interest will be based upon
3 your proportionate share within the unit which is 13.65, or
4 whatever it is.

5 MILTON SOWARDS: So, whatever...yeah. Okay.

6 JIM KISER: What you are essentially doing is,
7 instead of participating directly and having to put any
8 capital, is you're, what they call, kind of riding the well
9 down and taking a chance that it's going to be good enough
10 well that it's going to pay out and then continue to produce,
11 you know, for many years beyond the two hundred (200) percent
12 payout.

13 MILTON SOWARDS: I believe that's---.

14 BENNY WAMPLER: Okay. Very good.

15 BILL HARRIS: Well, that...can I ask a question
16 related to the---?

17 BENNY WAMPLER: Mr. Harris.

18 BILL HARRIS: We haven't had really many, that I'm
19 aware of, carried people who have chosen that election.

20 SANDRA RIGGS: A couple...a couple.

21 BILL HARRIS: I just wonder what the interest of
22 that has been?

23 SANDRA RIGGS: Two, that I know of.

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1 JIM KISER: Yeah, we've had a few...Equitable has.
2 BILL HARRIS: Has that been the choice to make? I
3 mean, this is just for his...his benefit.
4 JIM KISER: It depends on, you know---.
5 MILTON SOWARDS: Well, I...I...it seems like one-
6 eighth of...when I went down and talked to Mr...Don Hall. I
7 asked him for...if he could give me an average and the...he
8 gave me a average figure which seemed maybe a little low.
9 I...it seems...maybe I'm wrong, but it just seemed to me that
10 13.8 percent after they recoup their...it will be about a
11 little over a half million, I guess. It would be better than
12 one-eighth of percent. I'm---.
13 CLYDE KING: Those figures add up, yes.
14 MILTON SOWARDS: And the...he gave me a figure on
15 the one-eighth percent but he didn't give anything...you
16 know, it will depend on the well, on the---.
17 CLYDE KING: I think Mr. Kiser could probably
18 answer...are these wells normally produced for a long, long
19 time? What's the average life of those types wells?
20 JIM KISER: Oh, it's probably thirty (30) years.
21 MR. LEWIS: At least that.
22 MR. KISER: Yeah. I mean, the risk that you're
23 taking...some of these wells don't ever reach two hundred
24

1 (200) percent payout. So, that's the roll of the dice. You
2 know, the one-eighth you are assured some money. I mean,
3 we've got---.

4 MILTON SOWARDS: Well, if it doesn't reach the two
5 hundred (200) percent payout, then there isn't much money
6 involved anyway.

7 JIM KISER: No, there wouldn't be any involved for
8 you.

9 MILTON SOWARDS: Right...you know, even if I took
10 the option one, if it didn't reach the payout, I wouldn't be
11 receiving that much anyway.

12 SANDRA RIGGS: Oh, yeah. With the royalty, you
13 start receiving money---.

14 JIM KISER: Immediately.

15 SANDRA RIGGS: ---immediately.

16 MILTON SOWARDS: Yeah, I understand. But it's only
17 one-eighth of a percent. I assume---.

18 SANDRA RIGGS: Right. Your percent of a percent.
19 That's right.

20 MILTON SOWARDS: ---it's one-eighth of the 13.8
21 percent that I---.

22 CLYDE KING: No.

23 SANDRA RIGGS: No, it is 13.8 percent of the one-

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1 eighth. Right.

2 MILTON SOWARDS: Oh...oh, okay. Well, I have it
3 backwards. Anyway, it's not much. That was what I was
4 figuring.

5 BENNY WAMPLER: Well, the bottom line is, you know,
6 from the Board's standpoint, we really can't advise you on
7 which option to take. You have to weight all those factors
8 and make that determination, but we certainly hope that this
9 has helped you in being able to better evaluate what you
10 decide to do.

11 MILTON SOWARDS: Well, I...I appreciate it because I
12 received these, I had no idea what was going on and I didn't
13 even know there was laws on the books to do something like
14 this.

15 BENNY WAMPLER: Right, I understand.

16 MILTON SOWARDS: And that's why I objected in the
17 letter---.

18 BENNY WAMPLER: Okay.

19 MILTON SOWARDS: ---because when they sent me a
20 lease, they stated that they had already talked to me, which
21 they hadn't and that...in reading this thing, I had so many
22 days to object and I thought I had to do that in order to be
23 here at this meeting. So, that's why I sent the letter.

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1 BENNY WAMPLER: Well, that's fine...that's fine.
2 Whatever it takes to get your questions answered.
3 MILTON SOWARDS: Yeah, I just didn't know what was
4 going on.
5 BENNY WAMPLER: Okay. Very good. Any other
6 questions from members of the Board?
7 (No audible response.)
8 BENNY WAMPLER: Did that satisfy your questions, Mr.
9 Sowards.
10 MILTON SOWARDS: When they said they would receive
11 ...I would receive a financial report, I assume in it they
12 would state how much oil or gas is producing and---?
13 DENNIS R. BAKER: Yes, it will show how much has
14 been produced through the month.
15 MILTON SOWARDS: I just...I'm just looking at your
16 set of regulations they gave me on item number three. Thank
17 you.
18 BENNY WAMPLER: Do you have anything further, Mr.
19 Kiser.
20 JIM KISER: No. We'd ask that the application be
21 approved as submitted.
22 MAX LEWIS: Has this cleared up most of your points?
23 MILTON SOWARDS: Pardon me?
24

1 MAX LEWIS: Has this cleared up most of the your
2 points that you wanted---?
3 MILTON SOWARDS: Yes...I believe it has. Probably
4 when I leave the meeting, I will have a whole bunch, but
5 right now, I can't think of anything else.
6 BENNY WAMPLER: I think they agreed after the
7 meeting to chat with you a little bit more.
8 MILTON SOWARDS: Yes, thank you.
9 JIM KISER: Yeah.
10 MAX LEWIS: Did you...do you feel...still feel that
11 you want to object to this---?
12 MILTON SOWARDS: Well, I just want to know what
13 the...you know, to make sure of what they are going to do.
14 You know...if I sign this lease with them, that thing has a
15 lot of fine print and I need to get with them. That's the
16 reason I asked if they were going to be on my land, if they
17 were going to be using the pond. Since the sediment pond is
18 already there, I was afraid they would say hey, you know, if
19 we don't have to build one...there's one here we will use it.
20 So, I don't know how much water they use to drill the well.
21 JIM KISER: Probably more than what's there, yeah.
22 MAX LEWIS: Takes a lot to prepare a frac.
23 TOM FULMER: Up on Black Mountain, you will be
24

1 hauling a lot of water.

2 JIM KISER: Yeah.

3 MAX LEWIS: A whole big lot of water.

4 MILTON STAMPER: Yeah, there's not much water up
5 there.

6 MAX LEWIS: A whole big lot.

7 MILTON STAMPER: Except when it rains.

8 TOM FULMER: And then you've got to catch it before
9 it goes off the mountain.

10 BENNY WAMPLER: Okay. What's your pleasure?

11 MASON BRENT: Mr. Chairman, I move we grant the
12 application.

13 CLYDE KING: I second.

14 BENNY WAMPLER: Motion to grant the application is
15 seconded. Any further discussion?

16 (No audible response.)

17 BENNY WAMPLER: All in favor, signify by saying
18 yes.

19 (All members indicate by yes except Max Lewis.)

20 BENNY WAMPLER: Opposed, say no.

21 MAX LEWIS: Abstain.

22 BENNY WAMPLER: One abstention. Your application is
23 approved. Thank you very much.

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1 JIM KISER: Thank you.

2 CLYDE KING: Mr. Sowards, you will be well taken
3 care of. If you have any problems, you can always come back
4 to the Board, I'm sure.

5 BENNY WAMPLER: One final item of business before
6 the Board before we adjourn today. Mr. King has asked me to
7 discuss with the Board...or to bring the...our meeting date
8 and the schedule currently in our regulation 4VAC25-160-30,
9 Virginia Gas and Oil Board shall meet on the third Tuesday of
10 each calendar unless no action is required by the Board or,
11 unless otherwise scheduled by the Board, et cetera. His
12 point was, or request was, to consider changing the meeting
13 date in the regulation from the third Tuesday to the fourth
14 Tuesday. Mr. King do you want to say anything with regard to
15 that.

16 CLYDE KING: Yeah, thank you, Mr. Chairman. I enjoy
17 being on the Board. I enjoy working with the members of the
18 Board and I certainly feel badly that I've been unable to
19 attend almost every other meeting. If anyone...I don't want
20 to infringe on anybody else's problems or scheduling or that
21 sort of thing, but if it could be done without a problem with
22 everyone concerned, I'd certainly appreciate it. I'll have
23 no problem being at all the meetings then.

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1 MASON BRENT: Clyde, how much more time do you have
2 on this Board?

3 CLYDE KING: It is a six (6) year appointment.

4 MASON BRENT: How much more time do you have?

5 CLYDE KING: Five (5).

6 MASON BRENT: Five (5) more.

7 CLYDE KING: I was reappointed...I was reappointed
8 in '80...I mean, '96...7.

9 BENNY WAMPLER: One option we could have is to set
10 it for the July docket and have a discussion. It's really
11 not on today's docket. So, I just wanted to talk about the
12 item next month and see.

13 MAX LEWIS: I don't care what Tuesday or the first
14 Tuesday to the fourth Tuesday. You are going to have some
15 people that's going to have some conflicts that they are not
16 going to be able to attend the meetings.

17 TOM FULMER: Can I say something?

18 BENNY WAMPLER: Sure.

19 TOM FULMER: I'll just tell you, in the regulation
20 there is an option for the Board to set a meeting at its own
21 time. The purpose setting for the standard meeting is the
22 notice requirements and that's the main motivating factor.
23 If the Board would want to change it permanently, then you
24

1 would have to go in revise the regulation.

2 MAX LEWIS: Yeah.

3 BENNY WAMPLER: That's what I'm saying. That's what
4 he is requesting, is it?

5 CLYDE KING: Right.

6 BILL HARRIS: If I may, Mr. King, if it didn't
7 change, would you still be able to attend every now and then.

8 CLYDE KING: Every other meeting.

9 BILL HARRIS: Would it be like it has been?

10 CLYDE KING: Uh-huh. Yeah. I would be able to
11 attend six (6) or seven (7) meetings a year.

12 MAX LEWIS: I'd say most of them might take...
13 Dennis, he don't---. I'd say he'd miss that many.

14 BILL HARRIS: Well, I've got a...well, I don't have
15 a preference as to which Tuesday, but I miss three (3) or
16 four (4) probably a year. I don't know...I don't know if we
17 will see anything different by changing---.

18 MAX LEWIS: I don't either.

19 BILL HARRIS: ---except we will see you, but less
20 of other.

21 MAX LEWIS: It will be somebody else.

22 CLYDE KING: Well, as I've previously said, it's up
23 to the Board. If you are willing to do it, fine, and if
24

1 you're not, it's fine. I know we've had a lot of problems
2 with the quorums and I certainly don't want to be a problem
3 there.

4 TOM FULMER: Again, I'd just like to reiterate that
5 you do have that flexibility in the regulations to change the
6 date of the meeting...at each Board meeting. That's an
7 option that's there.

8 BENNY WAMPLER: That's certainly not the way the
9 reg's designed, though.

10 SANDRA RIGGS: Because it fouls up the notice.

11 BENNY WAMPLER: That's not a...that's not a good
12 habit for the Board to do from that standpoint. I wouldn't
13 encourage that.

14 CLYDE KING: I wouldn't think so. It needs to be a
15 certain time.

16 BENNY WAMPLER: Yeah, we need to set the time so
17 that the public and everyone knows when that's going to
18 be...whatever it is.

19 MAX LEWIS: The time...that would be like changing
20 the place.

21 BENNY WAMPLER: Mr. King's point in bringing it up
22 was to make sure we didn't have any further problems with
23 reaching a quorum, and like all of us, when we...when we lack

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1 that one member having a quorum, it is pretty embarrassing to
2 be here and there's a lot of work that's gone into that and
3 everything else and I know everyone makes those efforts.
4 So...you know, I'm not going to ask for a vote today other
5 than just say, you know, would you like to put it down for
6 discussion for next month and---?

7 CLYDE KING: I would.

8 BENNY WAMPLER: ---we will discuss it and decide it
9 one way or the other.

10 CLYDE KING: That's fine. Thank you, Mr. Chairman.

11 BENNY WAMPLER: All right. We will do that. Thank
12 you very much.

13 MASON BRENT: No Tuesday is any less convenient to
14 me.

15 BENNY WAMPLER: He said no Tuesday is any less
16 convenient for him.

17 CLYDE KING: Right.

18 JIM KISER: But yet you show up every time and we
19 appreciate that.

20 BENNY WAMPLER: Thank you very much. This meeting
21 is adjourned.

22

23 STATE OF VIRGINIA,

24

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1 COUNTY OF BUCHANAN, to-wit:

2 I, SONYA MICHELLE BROWN, Court Reporter and Notary
3 Public for the State of Virginia, do hereby certify that the
4 foregoing hearing was recorded by me on a tape recording
5 machine and later transcribed by me personally.

6 Given under my hand and seal on this the 24th day
7 of June, 1998.

8 NOTARY PUBLIC

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10 My commission expires August 31, 2001.

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