

1 VIRGINIA:

2 IN THE COUNTY OF WASHINGTON

3 VIRGINIA DEPARTMENT OF MINES, MINERALS AND ENERGY

4 VIRGINIA GAS AND OIL BOARD

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9 JULY 18, 2000

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12 APPEARANCES:

13 MASON BRENT, REPRESENTATIVE OF THE GAS & OIL INDUSTRY
14 BENNY WAMPLER, CHAIRMAN
15 MAX LEWIS, PUBLIC MEMBER
16 CLYDE KING, PUBLIC MEMBER
17 SANDRA RIGGS, ASSISTANT ATTORNEY GENERAL
18 BOB WILSON, DIRECTOR OF THE DIVISION OF GAS & OIL AND
19 PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD
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*****ATTACHED IS A COPY OF THE AGENDA

1 BENNY WAMPLER: Okay. Are we ready?

2 (No audible response.)

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

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

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

12 MAX LEWIS: My name is Max Lewis. I'm from Buchanan
13 County. I represent the public as a public member.

14 CLYDE KING: My name is Clyde King. I'm from
15 Abingdon and I'm a public representative.

16 BOB WILSON: I'm Bob Wilson, the Director of the
17 Division of Gas and Oil, and the Principal Executive to the
18 staff of the Board.

19 BENNY WAMPLER: Thank you. The first item on
20 today's agenda is the Board, at its own request, will receive
21 a report from the escrow agent, First Union Bank, concerning
22 the status in the Board's escrow account.

23 DON BALLINGHOFF: Okay. Good morning everyone. I'm
24

1 Don Ballinghoff and with me is Patrick Dixon from the
2 Virginia bank. Through the end of June, the escrow account,
3 the principal deposits total \$4,037,246.77; interest through
4 the year has been \$82,301; for an ending balance as of the
5 end of June of \$4,113,235.06.

6 What I have given to the Board in these booklets is
7 a follow up from our last meeting. There was concern, or
8 some questions, about the contents of the escrow account and
9 the subsequent reporting of those funds. Pursuant to that
10 meeting, I was requested to provide a month by month
11 breakdown as well as an overall snapshot of all deposits from
12 January through the current month. So, within this booklet,
13 we have enclosed all of those reports. We've gone through
14 these and verified them based upon the deposit records, the
15 statements that come with the checks, we've gone through and
16 matched up each of those deposits to the data base that
17 produced this report. So, within there, these are verified
18 records of those deposits. And I have a couple extra copies
19 here if there's any members of the Board who would like a
20 copy.

21 BENNY WAMPLER: I need one extra.

22 CLYDE KING: Yeah, we need one.

23 DON BALLINGHOFF: One or two?

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1 BENNY WAMPLER: One extra.

2 DON BALLINGHOFF: One copy?

3 (Mr. Ballinghoff gives the report to Mr. Wampler.)

4 DON BALLINGHOFF: And also detailed within the
5 report are any payments or disbursements as ordered by the
6 Board that have occurred through that same time period. A
7 further copy has also been provided to Mr. Wilson's office
8 along with a copy of the bank statements, as well as the
9 disbursement report and associated checks initialed and
10 signed by First Union with the associated VGOB identified on
11 such copies.

12 BENNY WAMPLER: And I guess the key question is, Mr.
13 Wilson, are we able to disburse based on these verified
14 records now?

15 BOB WILSON: Not based on these records because we
16 don't have the tract level accounting done on all of the
17 accounts as it would take...in other words, to do actual
18 disbursements from this report.

19 I would like to say that what we have today is a
20 giant step beyond what we've had...gotten in the past. I've
21 had the opportunity to look over this to some degree and Mr.
22 Ballinghoff and I got together last night after he got into
23 town and went over some of the issues that we're dealing with

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1 here. It's my understanding from conversations with Mr.
2 Ballinghoff, and with Phyllis (inaudible) who works in his
3 office in Philadelphia, that these accounts have been
4 balanced item for item, transaction for transaction.

5 There are still a few minor glitches that we have
6 found in here, running through it. However, overall, it's my
7 opinion, based on this report, that we now have all the
8 information in the bank. We have all the information being
9 reported here that will satisfy the reporting requirements of
10 the contract so far as the reports that we're getting from
11 First Union. This particular report, the first section of
12 it, is a...is a running balance from January through June and
13 then each monthly report is also included in here, the
14 monthly transaction reports.

15 We still have some format issues that we want to
16 work on. Again, this is as much to satisfy our needs and
17 what we need to do when we're dealing with customers as
18 anything else. But the basic information, in my opinion, is
19 now in here. It's all in their system. It's a matter of
20 jockeying this around to put it in the condition that we
21 would like to see in a final report. We're pleased with that
22 kind of pro...the kind of progress that we've made on here.

23 We can't, of course, say this is fully balanced.

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1 We can't say that everything is accounted for because, of
2 course, we don't have the records of payments that have been
3 made and this sort of thing. We would hope that as we get
4 this finally smoothed out that the operators would want to
5 take...look back at these things and do some spot checking or
6 whatever to...to make sure that we are on the right track.
7 We have gotten some VGOB numbers that came in with transposed
8 digits and somehow they...they were...they were misapplied
9 and because of that, and whatever reason, but these things
10 are relatively small. We think we have found most of them.
11 We can get them ironed out and we got, as Mr. Ballinghoff
12 said, the disbursal report that was required, disbursement
13 report, and we have gotten the statement of the account.

14 Reporting requirements, I think we have in hand.
15 Again, from our conversations last evening, we're going to
16 sit down and massage this stuff a little bit now and get it
17 down to the final form that we want. I feel confident that
18 the next time this Board meets that we will have the
19 reporting requirements as detailed in the contract taken care
20 of. And again, those...those changes that we have to make
21 now appear to be minor.

22 We do have some problems relative to arranging the
23 disbursements, which will be the next items that we've

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1 considered today on the Board agenda, and part of that is
2 due, I think, to possibly incomplete communication of exactly
3 what we need. This is my responsibility. This was something
4 that I'm responsible for. I need to get organized and I take
5 full responsibility for that it has not happened to the
6 extent that it needs to; and I do think that part of that was
7 a lack of communicating exactly what was required to the
8 staff at First Union. I don't want to sit here and make it
9 sound like that everything has gone wrong is the fault of
10 First Union. We do have some problems yet to iron out. But
11 I certainly think we've made great progress on this aspect of
12 it, the reporting aspect of it. And we...again, after our
13 conversation last night, and other conversations we've had
14 recently, I think we've come to a better understanding of
15 exactly what is expected under these things.

16 This is apparently fairly unusual sort of dealings
17 that we're...we're involved in here; and again, I think maybe
18 the overall situation could have been resolved with a little
19 better communication in the past. I, at this point in time,
20 see no reason we can't proceed under this arrangement and get
21 it fixed, but we still have some work to do.

22 BENNY WAMPLER: Do you think you can take this and
23 get to the tract information within each unit?

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1 BILL WILSON: Yes. Much of the tract information is
2 here, not all of it.

3 BENNY WAMPLER: Right.

4 BILL WILSON: And in the specific instance of
5 the...some of the Orders we're going to be concerned with
6 today, that tract detail has not been supplied and is not
7 going to be available today, I presume.

8 DON BALLINGHOFF: Correct. We...anywhere the tract
9 information has been identified in any of the statements, or
10 communicated to us, we have noted within that spreadsheet.
11 You'll notice that the tail end of the VGOB number, we've
12 denoted it with a T for tract and the associated number. So,
13 anywhere that detail has been provided, we've included it
14 there in that report. Those particular disbursements, I
15 think that we had spoke about, we need to kind of go back and
16 work on because, you know, they're not readily available to
17 us on those...on the subsequent statements.

18 BENNY WAMPLER: Any questions from members of the
19 Board?

20 CLYDE KING: I have a question, Mr. Chairman.

21 BENNY WAMPLER: Mr. King?

22 CLYDE KING: The disbursements of \$6,313.12 is VGC.
23 Is that Virginia Gas? What is that?

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1 SANDRA RIGGS: Virginia Gas Company.
2 MAX LEWIS: Yeah.
3 CLYDE KING: Okay. We...did we do those just lately
4 or---?
5 BOB WILSON: They were done in the month of...do you
6 have the...I believe that was done in April.
7 CLYDE KING: That's January of 2000.
8 MAX LEWIS: Yeah, January.
9 DON BALLINGHOFF: I believe it was March, sir.
10 BOB WILSON: It was March?
11 DON BALLINGHOFF: I believe it was March.
12 BOB WILSON: That...the---.
13 CLYDE KING: March?
14 SANDRA RIGGS: Those...those were some unknowns and
15 unlocateables that they were...they were able to locate and
16 they came forward and gave us addresses for them and they
17 were conventional gas drilling units. Well, the only reason
18 they were on deposit in the escrow account was because they
19 couldn't locate the people. So, once they were able to find
20 them, we did the Order for disbursement.
21 CLYDE KING: Disbursed it?
22 SANDRA RIGGS: Right.
23 BOB WILSON: Yes. Those...those disbursements were
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1 done as a result of the Board Order.

2 BENNY WAMPLER: Any other questions for members of
3 the Board?

4 CLYDE KING: If I may, Mr. Chairman, where...where
5 do we stand as far as being able to start disbursing. Can we
6 do that fairly shortly?

7 DON BALLINGHOFF: Yes. Like I said...you know, as
8 Mr. Wilson said, you know, I...I take full responsibility as
9 far as the communication. I need to be a little more
10 proactive, I think, with...as far as bringing it down to a
11 tract level. We do have them identified. We need to
12 identify down at the single tract level as far as which
13 disbursements to make. We have the...at VGOB level, all the
14 funds are identified in house and ready to go. They just
15 need to be minded down a little bit further to that
16 individual tract level.

17 CLYDE KING: When are you saying we can start doing
18 disbursements?

19 DON BALLINGHOFF: Once we identify the tract numbers
20 and I'm not sure what's actually involved in getting down to
21 that level of detail.

22 SANDRA RIGGS: The way we're doing...we've been
23 doing this in the past is as there is an application to

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1 withdraw funds, at that point, the operator does the
2 accounting and submits it to the Board and they reconcile it
3 against the bank records and we disburse on a case by case
4 basis, and that's due to the fact that under the old statute,
5 before it was amended last year, the accounting was to be
6 done a unit basis and all the accounting that was...that
7 First Virginia did was on a unit by unit basis. When the
8 General Assembly changed the statute last year, they ordered
9 that disbursements will be done on a tract by tract basis.
10 So, under the new contract, that accounting has to be brought
11 down to one additional level and that's the process they're
12 working on now.

13 So, the way we're currently doing it as...as
14 disbursements come up, as parties come forward with either a
15 stipulated agreement where they've agreed on a split
16 agreement, or we locate an unknown or unlocateable person,
17 the operator is producing the accounting sheets that you got
18 today that breaks that unit number down to a tract by tract
19 basis and then we identify the tract in question and disburse
20 based on the operators spreadsheet, and then they're...as
21 that's happening, they're entering that data into their
22 system so that it doesn't have to be repeated the next time
23 we have a disbursement in that unit. And we're going to have

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1 to just work our way through everyone of these units,
2 breaking them down track by track. But there's nothing
3 keeping us from disbursing as people come forward and seek
4 disbursement. It just requires the process of getting the
5 operators to produce the tract accounting and reconciling it
6 to the bank. So, there's an additional step there that, once
7 we get it all with the bank, we won't have to go through.

8 BOB WILSON: And I think that once we have gone
9 through one of these processes, and I think the one that's up
10 now is probably...will be good one for a training exercise.
11 There is a learning curve involved in all of this, and I
12 think we got behind it a little bit, but I think once we have
13 gone through the exercise, it will move much more smoothly
14 after that because we will be communicating on the same level
15 and expectations will be clearer and the results...intended
16 results will be clearer as well.

17 CLYDE KING: Of course, the ideal situation is to
18 disburse as quickly as possible.

19 SANDRA RIGGS: Right. And right now we're having to
20 go through that accounting step to break it down to a tract
21 level.

22 KENNETH OSBORNE: Mr. Chairman, I have a question.
23 My name is Kenneth Osborne. I'm one of the Linkous Horn

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1 heirs. Ms. Riggs just said something about the General
2 Assembly changed the process of what...disbursing money. I
3 wasn't aware of that and shouldn't the heirs be...I mean,
4 isn't that up to the operators to notify the heirs about
5 these changes?

6 BENNY WAMPLER: I don't think it is. But it's
7 according to the changes in the law, as far as any mandate
8 that they do that, to notify you of that. But all that does
9 really...I mean, it doesn't take away anything from you, of
10 course. What it does is to try to sort out and make it
11 available to people that want to come together within...
12 particular tracts and get together and come to an agreement
13 so that the Board could disburse was what it was intended
14 for, if that responds to your question.

15 MASON BRENT: Could I ask a question to make sure I
16 understand Mr. Ballinghoff?

17 BENNY WAMPLER: Mr. Brent?

18 DON BALLINGHOFF: Yes, sir.

19 MASON BRENT: I'm...you've got in this report the
20 unit numbers and then as you mentioned, in some cases beneath
21 that you have it by tract.

22 DON BALLINGHOFF: Yes, sir.

23 MASON BRENT: And in some of these cases the
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1 unit...the tracts have balances, but the unit also has a
2 balance.

3 DON BALLINGHOFF: Correct.

4 MASON BRENT: What is that balance in the unit? Is
5 that money that just...has not been allocated out to that
6 tract yet?

7 DON BALLINGHOFF: That is correct, sir. Yes. I
8 think as previously mentioned, when prior it was tract...it
9 was all at the unit level, or the VGOB level. So, those
10 funds have not been identified as to which tract they belong.
11 In those instances, we've left them alone until, you know---
12 .

13 MASON BRENT: So, when you do get that done, then
14 the unit---?

15 DON BALLINGHOFF: Correct.

16 MASON BRENT: ---...the unit line will show a zero
17 balance and then---?

18 DON BALLINGHOFF: Yes.

19 MASON BRENT: ---all the disbursements---?

20 DON BALLINGHOFF: For that...for the reports
21 purposes, yes. The totals will also...well, up to that
22 level, if you will. But as...as those tract levels are
23 identified and passed to us, we will then move the money

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1 out...out of that...well, I'll call it unknown, but at the
2 VGOB level and subsequently disburse down to that level.

3 MASON BRENT: Thank you.

4 DON BALLINGHOFF: You're welcome. I hope that
5 answered your...I hope that answered your question.

6 MASON BRENT: It did.

7 DON BALLINGHOFF: Good.

8 BENNY WAMPLER: Any other questions?

9 MARY KEEN: Can I speak? (From the audience.) See,
10 I'm a Horn heir.

11 COURT REPORTER: Ma'am, you need to come down here.
12 I can't hear you.

13 MARY KEEN: (Inaudible).

14 COURT REPORTER: Yeah, but the mikes can't hear you.

15 BENNY WAMPLER: She's trying build a record, and in
16 order to get you on the record...some people she can pick up,
17 she can tell and some she can't. It's just a tone of our
18 voices.

19 MARY KEEN: Our bank records...I mean, you know,
20 when we have savings account---

21 BENNY WAMPLER: State...state your name for the
22 record.

23 MARY KEEN: I'm Mary Keen. When we have a savings
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1 account, or a checking account, or something, we have to keep
2 our records straight, you know, and I think since we're in
3 partners, or whatever, you know, this escrow thing, that we
4 ought to get a bank statement each time what belongs to us
5 because...see, we're not getting anything and there's all
6 this that's...you'uns are getting the money, but we're not
7 getting our share and I think we should have a bank statement
8 each month to let us know how much is our share.

9 BENNY WAMPLER: What...what happens is that the
10 royalty...of course, I'll ask Mr. Swartz to respond to this,
11 but what happens is a royalty statement goes in to the bank
12 rather than to the individual. If you...if you were getting
13 direct disbursements, you would get a royalty statement that
14 showed you that. But until such time as we get to this order
15 of disbursement, you don't get the individual royalty
16 statements. It goes to the bank and it's on record at the
17 bank.

18 MARY KEEN: Well, we still should know something
19 because it's our gas that they're getting.

20 BENNY WAMPLER: Well, that's what we're trying to
21 get to so that you can determine how much is in that unit.

22 MARY KEEN: Yeah.

23 BENNY WAMPLER: That's...that's what we have here.

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1 For any unit tied back to a particular well, we now know how
2 much money is in...in the account. But, as far as that
3 statement coming to you directly, there's a lot of...these
4 folks can speak to it better, but I'm sure the IRS gets
5 involved in that, because they have to send the statement of
6 where the money is going to reside. So, if they sent the
7 statement...I'm not saying they couldn't send you a copy,
8 don't get me wrong, but I'm just saying this is set up
9 legally where...where they're sending that statement, the
10 money has to go is the way it's technically set up. Now, a
11 copy of that statement, or something coming to people, that
12 would be something certainly they could do.

13 MARY KEEN: Yeah, they need to do it because they're
14 leaving us out. I mean, we need...we need something because
15 we've been left out.

16 SANDRA RIGGS: Well, I think the way the law is set
17 up, the ownership of the gas is unknown until such time as
18 there is a decision. So, there is no determination of
19 ownership and the money goes into escrow to be held until
20 that decision gets made, and any claimant, as opposed to an
21 owner, has access to the record. The way the statute reads
22 is, "That files will be maintained in the office of the
23 Division of Gas and Oil and can be inspected there by any
24

1 unleased claimant to the gas." So, the way the statute is
2 set up is, those records are maintained in the VGOB office,
3 which is why Bob is concerned that the level of accounting
4 that's reported monthly from the bank is sufficient that he
5 can address customer inquiries and when he talks about
6 customers, he's talking about claimants to the money can come
7 in at any time to the Gas and Oil office, or call into the
8 Gas and Oil office, and he will have sufficient records from
9 the escrow agent to be able to answer those kinds of
10 questions.

11 MARY KEEN: For each well?

12 SANDRA RIGGS: Exactly. And we've got it for the
13 well. The process we're---

14 BENNY WAMPLER: And the units.

15 SANDRA RIGGS: The process we're going through now
16 is to break it down to the tracts within the drilling unit.
17 So, that if you have an interest in a particular tract, you
18 not only know how much money is on deposit for that well, but
19 you can also determine how much of that is attributable to
20 your particular claim. So, it's...it's breaking it down,
21 sub-accounting if you will, not just on a unit by unit basis,
22 but on a tract by tract basis, and that's the change that the
23 General Assembly made in terms of disbursements a year or so,
24

1 I think it was last July it went into effect, that caused us
2 to have to go through this change in accounting procedures.
3 So, now it will not only maintained on the unit basis, but
4 we're also instituting with this escrow agent a process to
5 track that on tract by tract within the unit basis. So, the
6 report that has been filed today gives you the unit balances
7 and what we're trying to work out is the process to break
8 that down to the tract level.

9 BENNY WAMPLER: And, see, you have to understand
10 that when it's going into escrow, technically we don't know
11 who owns it, who has right to that money until such time as
12 we get to a disbursement decision. I know it's---

13 MARY KEEN: Well, I understand that.

14 BENNY WAMPLER: Okay.

15 MARY KEEN: But I understand where I'm standing,
16 too.

17 BENNY WAMPLER: Okay. Well, we understand.

18 KENNETH OSBORNE: Mr. Chairman, just to keep the
19 record straight. Again, my name is Kenneth Osborne, and one
20 of my concerns is to watch out for my people also, and later
21 on down the road, I don't want this to be misconstrued, she
22 made mention just then, and I'm sure she didn't realize what
23 she was saying, she made mention that we're supposed to be

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1 partners and stuff. I just wanted the record to reflect that
2 we're not partners with Consol at this point. We are entered
3 into a force pooling and I just wanted to make that clear on
4 the record. Thank you, sir.

5 BENNY WAMPLER: I understand. Any---?

6 FRANK STACY: Mr. Chairman, may I...I'm sorry.
7 Frank Stacy, with the Linkous Horn heirs. A question, if I
8 may, I don't know whether I need to address the Board or the
9 others. Is this an audited or unaudited report that you
10 have?

11 BENNY WAMPLER: This is...this report that was
12 presented to us today---.

13 FRANK STACY: Because I---.

14 BENNY WAMPLER: We haven't had a audit.

15 FRANK STACY: Okay. Because it is an operator
16 provided report, is that correct?

17 BENNY WAMPLER: It's---.

18 FRANK STACY: Okay.

19 BENNY WAMPLER: It's an escrow agent provided
20 report. Not an operator provided report.

21 FRANK STACY: All right.

22 BENNY WAMPLER: It's based on the information that
23 the operator has---.

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1 FRANK STACY: From the operator's spreadsheets.

2 BENNY WAMPLER: ---presented to the escrow agent.

3 FRANK STACY: Okay. Is there a check and balance on
4 the accounting as far as the money that's being escrowed?
5 Who's overseeing that the monies are correct?

6 BENNY WAMPLER: There is a check and balance that we
7 do. In fact, we'll discuss about that. We periodically have
8 an independent audit---

9 FRANK STACY: All right, sir.

10 BENNY WAMPLER: ---that the Board employs a CPA
11 group to come in and audit the funds.

12 FRANK STACY: Who oversees that, if I may...if we
13 had a---

14 BENNY WAMPLER: Mr. Wilson.

15 FRANK STACY: Again. I'm sorry?

16 BENNY WAMPLER: Well, the Board issues the contract
17 through Mr. Wilson.

18 FRANK STACY: Mr. Willis?

19 BENNY WAMPLER: Wilson.

20 BOB WILSON: Wilson.

21 FRANK STACY: Okay. I'm sorry.

22 BENNY WAMPLER: He's...he's the director of the
23 Division of Gas and Oil.

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1 FRANK STACY: All right, sir. A second thing, if I
2 may, the report that is provided to you all, is that public
3 information?

4 BENNY WAMPLER: It is.

5 FRANK STACY: So, it can made available upon
6 request?

7 BENNY WAMPLER: It can.

8 FRANK STACY: Okay, sir. And also, one more final
9 question, I mention...I heard you mentioned earlier about a
10 disbursement to VGC. Who's approving the disbursements? Is
11 the Board?

12 BENNY WAMPLER: The Board. We'll have a discussion
13 here in just a minute about---

14 FRANK STACY: All right, sir.

15 BENNY WAMPLER: ---disbursement.

16 FRANK STACY: Thank you, sir.

17 BENNY WAMPLER: We'll have the disbursement issues
18 to come up next. I would ask you gentlemen to stay for some
19 of that, if you will, for that disbursement---

20 DON BALLINGHOFF: Yes.

21 BENNY WAMPLER: ---discussion because there could
22 be things that we have questions---

23 PATRICK DIXON: Sure.

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1 BENNY WAMPLER: ---that we may not have right now
2 that we'll ask you at that time.

3 DON BALLINGHOFF: That's fine.

4 BENNY WAMPLER: Okay.

5 BOB WILSON: We discussed last night the banking
6 representatives staying for that discussion. He does have a
7 plane schedule. So...but we're not that tight. I think we
8 should have plenty time to cover it.

9 BENNY WAMPLER: Okay. Any other questions at this
10 time?

11 MASON BRENT: I think last month, Mr. Arrington was
12 pretty vocal on this issue. I'm wondering where he is this
13 month on this.

14 LESLIE K. ARRINGTON: Well, first of all, this is
15 the first we've seen of the report. So, you know, I'd like
16 to...the one thing that we do see in the report, there's
17 several entries...numerous entries for different units. I
18 mean, for the same units. So, it will take us a while to
19 look through that and I'm not sure whether Mark has looked at
20 that or not. It's not in there...Mark, correct me if I'm
21 wrong, but I don't see it in here on a monthly basis. Maybe
22 that's what we're looking for.

23 MARK SWARTZ: Right, we are.

24

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1 LESLIE K. ARRINGTON: You know, that's---.

2 MARK SWARTZ: If we have...with regard to the three
3 units that were on the docket last time, which are...which
4 are back on the docket this time---.

5 BENNY WAMPLER: Right.

6 MARK SWARTZ: ---we have compared the operator
7 records, and you've got the spreadsheets, and the units I'm
8 talking about are NELW9 and SLW7. Those two units, we have
9 been able to compare our records of royalty payments the
10 escrow agent records on a monthly basis, through the end of
11 '99, the previous escrow agent, and we have reconciled those
12 and essentially brought the orders, or the numbers, forward
13 from the last time that there were disbursements and so
14 forth, and we have made recommendations, and I thought that
15 these were going to be copies and they haven't been passed
16 along to you all. But we made a recommendation to Bob
17 Wilson, Jill Harrison and Sandra Riggs with regard to
18 disbursements from those two accounts through the end of
19 December of '99, because we felt like we could do that. We
20 had reconciled the numbers. We caught one mistake with
21 regard to NELW9 and we explained how to straighten that out.
22 We're going to have to get an order allowing us to deposit a
23 little bit to...there was an over disbursement. So, we've

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1 got those straightened out, NELW9 and SLW7 through 12/31/99.
2 We do not have monthly accounting information, even as of
3 today, from the bank from December 1st through the most
4 recent accounting period where royalties were paid. So,
5 we're basically missing monthly reporting from 12/1 or, I'm
6 sorry, from 1/1 through...through, I think, June was the last
7 royalty month; and we need to be able to have the monthly
8 detail to compare our payment records to their deposit
9 records to make sure that...because the balance they're
10 reporting is different than the balance we have. I mean, for
11 example, if you look at NELW10, which was---

12 LESLIE K. ARRINGTON: There's no page number.

13 MARK SWARTZ: Well, there's no---

14 CLYDE KING: Where are you, Mark?

15 MARK SWARTZ: ---page numbers. But if you come
16 back down---

17 BENNY WAMPLER: He's looking at NEL---

18 MARK SWARTZ: ---one---

19 MAX LEWIS: NELW10.

20 MASON BRENT: The lower...lower right hand corner is
21 the page numbers.

22 BENNY WAMPLER: Yeah.

23 LESLIE K. ARRINGTON: Is it? Oh, okay.

24

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1 MARK SWARTZ: Oh, okay. All right, if you go to---.

2 LESLIE K. ARRINGTON: Four and five.

3 MARK SWARTZ: Pages four and five. Lets find

4 them---.

5 BENNY WAMPLER: Are you on the summary? They're

6 asking which...asking me up here which one you're on. Are

7 you on the summary report, the one that's going January

8 through June?

9 MARK SWARTZ: Oh, there's actually monthly deposits

10 in there.

11 BENNY WAMPLER: There are monthly---.

12 MARK SWARTZ: Okay.

13 BENNY WAMPLER: There are monthly reports in here.

14 MARK SWARTZ: All right. The first time we've seen

15 this is today.

16 BENNY WAMPLER: Okay.

17 LESLIE K. ARRINGTON: Yeah.

18 MARK SWARTZ: (Inaudible).

19 BENNY WAMPLER: So, they do have the monthly reports

20 here.

21 MARK SWARTZ: Okay. Well, you know, we saw this a

22 minute ago.

23 MASON BRENT: I guess, getting to---.

24

1 MARK SWARTZ: But that's what we need.

2 CLYDE KING: I wondered what you were talking about.

3 MASON BRENT: What we're getting at is...you know,
4 where can we expect to be next month?

5 BENNY WAMPLER: Right.

6 MASON BRENT: Is there going to be an agreement...
7 agreements between the bank and the operators that, yes,
8 these numbers are right, or what's our goal for next month?
9 Where do we...where do we want to be?

10 SANDRA RIGGS: I thought I heard Mark saying we're
11 ready to enter an order of disbursement through 12/31/99,
12 with the subsequent disbursement to occur for the year 2000
13 once they're able to enter these numbers on their
14 spreadsheet.

15 MASON BRENT: Yeah, but that's just---.

16 MARK SWARTZ: Which I would think would be next
17 month.

18 MASON BRENT: That's just for those tracts that
19 we're going to talk about today. I'm talking about overall.

20 SANDRA RIGGS: Oh. Oh. I'm sorry.

21 MASON BRENT: Overall, where do we expect to be next
22 month, and I don't know who can answer that question?

23 MARK SWARTZ: What?

24

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1 (Mr. Arrington confers with Mr. Swartz.)

2 MASON BRENT: I mean, shouldn't...shouldn't we set
3 a...shouldn't we set an interim goal for where we want to be
4 on all of this, you know, this time next month? Mr. Wilson,
5 do you---?

6 BOB WILSON: Could you...could you say that again,
7 please?

8 MASON BRENT: I'm...I'm just kind of concerned from,
9 you know, where we go from here. Where do we expect to be
10 next month with regard to reconciling the operators' records
11 and the escrow agent's records and getting you comfortable
12 with all of that? Where can we expect to be this time next
13 month?

14 BOB WILSON: I can tell you what our initial
15 objective is with this report. As I said, we found several
16 minor problems of the sort that are not worth detailing right
17 now, but the first...our first objective is to go through and
18 clean up all of those things that we have found in there that
19 need to be corrected so far as the reporting is concerned.
20 Now, so far as the balancing, the checking of the balance, as
21 I said earlier, I would hope that the operators would want to
22 go through this report, and we'll be happy to supply copies
23 to anybody who wants it, and compare their deposits with the

24

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1 entries here. There has been some confusion, if I understand
2 correctly, the occasional deposit has come in with the wrong
3 VGOB number. Is that correct, Mr. Ballinghoff?

4 DON BALLINGHOFF: That...that is correct.

5 BOB WILSON: And they have been possibly placed in
6 the wrong place. These things need to be corrected and I
7 don't have the records to check that and I'm not sure that
8 that's part of what we would need to do...the Board would
9 need to do anyway. I think the operators would need to get
10 in and do some checking against this to see if they are
11 finding problems in them.

12 MASON BRENT: Well, let's...okay. Just take for an
13 example then, Virginia Gas Company, who's not represented in
14 this room, how are they going to know about this report? Are
15 we going to send them one and say, okay, here's what we think
16 is the deal?

17 BOB WILSON: We have, of course, contacts at all of
18 these companies that we can...we can deal with to try to
19 encourage them to look at this and I think that's a step that
20 we would take is to provide this report to all...to a
21 representative of each of the company that has a VGOB
22 account.

23 BENNY WAMPLER: See, one of the problems that we
24

1 have here, one of the problems that the bank has been dealing
2 with, as we've said before, the escrow...the money coming
3 into escrow, the royalty payments have been coming by unit
4 and the tract detail is not...and a lot of these is not
5 available to them until it's supplied by the operator and
6 I...you know, I think as far we're concerned, that's what we
7 need to do is send out a letter requiring the tract detail to
8 be provided.

9 MASON BRENT: Well, I guess---

10 BENNY WAMPLER: The question is, does the tract
11 detail need to be provided now or at time of disbursement?
12 Right now, we've been dealing with tract deal at the time of
13 disbursement, which is what we're dealing...are going to be
14 dealing with as soon as we call these next...next three.

15 MASON BRENT: But can we---?

16 BOB WILSON: Part...part of our objective, excuse
17 me, under this contract was to get accounting down to the
18 tract level and also to get a more instant means of access to
19 the accounting, which we discussed last night. Electronic
20 access, whereby, we can actually go in by way of computer and
21 check any balance at any instant and that apparently is
22 progressing fairly well as well. But, our immediate
23 objective is to assure compliance with the contract and, to

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1 the extent that we can, insure that that balance is achieved.
2 I don't think we have any question that the fund itself, the
3 money that has gone in, is balanced insofar as the amount
4 that was transferred to First Union and the amount that has
5 come into First Union. The disbursements they have made, the
6 fees they have charged, the interest that they have paid, I
7 think all of that is in balance. I don't think there's any
8 doubt about it. They don't have any question about the
9 overall account itself. It's down to the sub-account and
10 sub-sub-account level that we're working right now in trying
11 to get these things smoothed out.

12 MASON BRENT: Well, to me it just seems that...and I
13 think we have come a long way on this. I think that's really
14 great. But it seems to me...I don't believe I would be
15 comfortable until, number one, we have some assurance that on
16 a unit by unit basis, yes, the operators agree what they
17 got...what the bank has showing is right and we get some
18 affirmation from the operators that say, yes, we agree with
19 that; and then step two is, you know, what you've been
20 talking about, then let's take it down on a tract by tract
21 basis and making sure all along that, you know, the operators
22 are actively involved and agreed that, yes, that's...you
23 know, those are the right balances. Is that...was that where

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1 we think we're headed?

2 BOB WILSON: Yes. I...I fully agree with you on
3 that and it's a prudent depositor that checks his bank
4 statement and I think that's pretty much what we have to do
5 now, and if we don't deal with it now, then somewhere down
6 the road at disbursement, we'll going to have a problem that
7 we may not be able to find. We've had...we got off to kind
8 of a rocky start here and...but I think we have made great
9 strides insofar as getting the problems taken care of and now
10 hopefully, we can concentrate on getting it down to a routine
11 level and moving forward.

12 MASON BRENT: Thank you.

13 BENNY WAMPLER: Mr. Wilson could mail out a letter
14 to each of these operators with the summary sheet here which
15 gives them January through June, asking for verification of
16 the summary of the units.

17 MASON BRENT: Yeah. I think that's a good idea.

18 BENNY WAMPLER: Which goes directly to what you're
19 talking about.

20 MASON BRENT: I think that's a good idea.

21 BENNY WAMPLER: And we can do that...we can do that
22 by certified mail to each of the individuals---

23 MASON BRENT: I think that's a good idea.

24

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1 BENNY WAMPLER: ---and generate that...that
2 independent verification, which is very important.

3 MASON BRENT: Yeah, I think that's a good idea.

4 DON BALLINGHOFF: Would there be...just to follow
5 Mr. Wilson's comment. There will also be access through the
6 phone system, as well as the Internet, to these accounts.
7 Where, you know, the delivery mechanism will be two-fold with
8 Internet based on voice response or telephone response,
9 whereby...through a pin number. They'll be able to put in
10 the VGOB number and the tract number, if such tract number is
11 identified, and get the...obtain a balance through Internet
12 and phone access as me and Mr. Wilson discussed last evening.
13 The hardware's in place. I would like his office to kind of
14 take it through its paces to make sure it's adequate for the
15 Board's needs prior to willing it out to the world at large.

16 MASON BRENT: I think that's good.

17 BENNY WAMPLER: Anything else at this time from the
18 Board?

19 CLYDE KING: Mr...Mr. Chairman, I---.

20 BENNY WAMPLER: Mr. King?

21 CLYDE KING: This may be...is it possible that any
22 of this communication between you and Mr. Wilson, that if it
23 was of some importance, that maybe we could be...get a copy
24

1 of that, so we would know what we were doing before we came
2 to the meeting? Like if it was something of importance that
3 we was going to act on at the meeting, if we could maybe get
4 something...if you and the agent are making some
5 communication that you thought we should know about before we
6 got here.

7 BENNY WAMPLER: Yeah, that's...routinely, we
8 certainly make every effort to---

9 CLYDE KING: That would help us to know
10 what...before we got here.

11 BENNY WAMPLER: Right.

12 BOB WILSON: Yes. That would be my responsibility
13 and I will certainly see to that.

14 CLYDE KING: It might help a little bit.

15 DON BALLINGHOFF: Sure.

16 BENNY WAMPLER: Anything else?

17 (No audible response.)

18 BENNY WAMPLER: If not, let's get into the
19 disbursement orders and talk about those. I guess I'm
20 plowing right into the one that you say we've got a problem
21 with, but be that as it may, we'll go ahead call VGOB-97-
22 0415-0579, drilling unit NELW10; and ask that anybody that
23 wishes to address the Board in this matter to come forward at
24

1 this time.

2 (Leslie K. Arrington hands out spreadsheets.)

3 BENNY WAMPLER: These roll up records here show that
4 there's currently \$56,692.38 as an ending balance through
5 June 30, 2000.

6 MARK SWARTZ: Right. One of our problems with this
7 unit, which we expressed in the memo that we had sent to Bob
8 and Sandy last week, was that there were two accounts. They
9 needed to be combined, and as far as we knew from the
10 accounting data that we had, they had not been combined.
11 When I look at the records that you're referring to, Mr.
12 Wampler, this morning, it's obvious that the accounts were
13 combined and we were unaware of the combination. That's
14 fine. That's good. But, now we can take that information
15 and try to work this number forward. But the first we knew
16 they weren't two accounts, as depicted in the exhibit we've
17 given you this morning, was this one. So, what...you know,
18 what Anita will do next month is take the combined total and
19 try to run these numbers forward to get...you know, to get us
20 to a final balance in the tracts that are going to be
21 disbursed.

22 BENNY WAMPLER: I guess what I'm wondering is, is
23 there a problem with the Board going ahead and acting on the
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1 disbursement order of all funds, plus interest, less payment
2 today, subject to that verification?

3 MARK SWARTZ: I mean, as long as we can reach an
4 agreement with Jill, I don't have any problem with that.

5 BENNY WAMPLER: That's what I'm asking. I'm just
6 searching to see if you think that's doable.

7 JILL HARRISON: Yeah, I don't---

8 MARK SWARTZ: Because we've done that in the past.
9 I mean...right.

10 JILL HARRISON: Yeah. I mean, I've...obviously, I
11 just looked at these a few minutes. But, I...on this
12 particular one, I don't have any questions. I do have a
13 question. Do you all know what the net rate of return is on
14 this account?

15 SANDRA RIGGS: They reported that last month. The
16 net rate of return on the account.

17 PATRICK DIXON: At the month ending June, the annual
18 percentage yield was 6.71, 6.71%.

19 JILL HARRISON: Okay.

20 MARK SWARTZ: That's not net, though.

21 JILL HARRISON: That's not net. That's your...no,
22 that's not net fees?

23 PATRICK DIXON: No. That would be considered
24

1 compounded interest, interest on interest for the month of
2 June. The rate, that annual percentage rate on the account
3 for the month of June was 6.50. So, if the funds remained on
4 deposit through the remainder of the year, and interest was
5 paid on the balance in the account as well with compounded
6 interest, the ending yield as of 12/31/2000 would be 6.71,
7 presuming that the rate did not change.

8 JILL HARRISON: All right. Well, I don't have a
9 problem on this one. But, on some others, there is a very,
10 very small difference between the balance last year when we
11 looked at this process and got these (inaudible) on these
12 balance sheets. Way, way less than...and I just used 5%.
13 But it's not on this one. The numbers are small. It's close
14 enough. I mean, this one is fine and I wouldn't have any
15 objection to what Mark is suggesting on this one.

16 SANDRA RIGGS: So, based on the financial
17 information provided today, which would be the spreadsheet
18 and the escrow agent's report, we can order disbursement
19 subject to the operator and...and the owners notifying the
20 Board that---

21 MARK SWARTZ: That we've reached an agreement.

22 SANDRA RIGGS: ---you've reached a final agreement.

23 MARK SWARTZ: ---or we're in agreement as to the
24
25

1 number with the bank.

2 SANDRA RIGGS: Right.

3 JILL HARRISON: And I think we've agreed to do that.

4 MARK SWARTZ: Yeah, we normally do.

5 JILL HARRISON: Yeah.

6 BENNY WAMPLER: Okay. The one thing that's not in
7 the number that I gave you is the payment, the bank charge,
8 back to that. So, I'd just make that for the record that
9 that's not showing here. I read a number out of \$56,692.38,
10 and there's zero payment charges back to that on this report.

11 DON BALLINGHOFF: If I may...might just interject.
12 How...how the fees are handled is, the earnings on the
13 account are on a monthly basis. Any fees that are subtracted
14 are at that level and we do not charge each individual VGOB
15 number any fees.

16 MARK SWARTZ: So, interest is net our fees?

17 DON BALLINGHOFF: That's correct, sir. Yes.

18 MARK SWARTZ: Okay.

19 JILL HARRISON: Yeah. That's what...it has plus or
20 minus net income, as followed on a spreadsheet.

21 BENNY WAMPLER: Right.

22 DON BALLINGHOFF: That's why you won't see
23 any...when you see those numbers, they are true numbers, sir.

24

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1 JILL HARRISON: That's what I just wondered it was.
2 DON BALLINGHOFF: Yes, ma'am.
3 PATRICK DIXON: And the numbers I was relating to
4 earlier was the gross yield before the fees.
5 JILL HARRISON: Oh. That what I was...that's
6 why---.
7 BENNY WAMPLER: Right.
8 PATRICK DIXON: Sure.
9 JILL HARRISON: That's why I was asking of the net
10 number.
11 BENNY WAMPLER: Okay.
12 DON BALLINGHOFF: My apologies for not being clear
13 on that.
14 JILL HARRISON: No, I understand.
15 DON BALLINGHOFF: That's how this...that's how we
16 coordinate it.
17 SANDRA RIGGS: Okay.
18 BENNY WAMPLER: All right.
19 DON BALLINGHOFF: And, Mr. Wampler, the payments in
20 there would be disbursements to the individuals.
21 BENNY WAMPLER: I understand. I understand that.
22 Okay, does the Board understand what...to the point that
23 you're prepared to make a motion to that effect that we would
24

1 order disbursement based upon agreement of the operator and
2 claimant?

3 MAX LEWIS: I make that motion.

4 BENNY WAMPLER: I have a motion.

5 MASON BRENT: I second it.

6 BENNY WAMPLER: Second. Any further discussions?

7 (No audible response.)

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

9 (All members signify yes.)

10 BENNY WAMPLER: Opposed, say no.

11 (No audible response.)

12 BENNY WAMPLER: We have a disbursement on that one
13 subject to the condition of the order. The next one is VGOB-
14 97-05-20-0582. This is NEWL...I'm sorry, NELW9 drilling
15 unit. We'd ask the parties that wish to address the Board in
16 this matter to come forward at this time. Mr. Ballinghoff,
17 if you need to go, you can---

18 DON BALLINGHOFF: Thank you, sir. It's a pleasure
19 meeting everyone again, and we'll---

20 BENNY WAMPLER: He has got a plane to---

21 SANDRA RIGGS: Yeah.

22 DON BALLINGHOFF: Okay, and it we'll be next...we'll
23 be next quarter for...next time the Board would require my

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1 presence?

2 BENNY WAMPLER: I believe at this point, we'll...
3 we'll notify you if we do.

4 DON BALLINGHOFF: Fine.

5 BENNY WAMPLER: We'll go through this and we
6 appreciate the report that you provided and---

7 DON BALLINGHOFF: It's my pleasure.

8 BENNY WAMPLER: ---and the efforts you've made to
9 satisfy the requirements. If you have time to stay, we'd
10 welcome you to stay a couple minutes.

11 PATRICK DIXON: Yeah, I'll go ahead and---

12 BENNY WAMPLER: If you need to go, feel free---

13 PATRICK DIXON: I'll stay.

14 BENNY WAMPLER: Okay.

15 DON BALLINGHOFF: No, you won't. You're my ride.

16 PATRICK DIXON: That's right.

17 BENNY WAMPLER: Okay. Okay.

18 DON BALLINGHOFF: No, you'll be leaving.

19 BENNY WAMPLER: Thank you.

20 DON BALLINGHOFF: Okay, take care everyone.

21 BENNY WAMPLER: Mr. Swartz, you reported earlier
22 that you have...you are in agreement on NELW9...NELW9?

23 MARK SWARTZ: We...I don't know if we're in
24

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1 agreement on it because I haven't had a chance to talk to
2 Jill about the memo we sent out. But we need to alert the
3 Board to a slight adjustment in the order that needs to be
4 entered by the Board to balance this account and I'll Les or
5 Anita explain to you the spreadsheet that you've got for NELW
6 9, and then we can ask Jill, you know, if she has got any
7 questions and we can answer them and if not, we can...we can
8 we proceed.

9 LESLIE K. ARRINGTON: Okay. If you'll look at the
10 spreadsheet, look at it...if you'll look at the date of
11 10/25/96, there was an allocation there for Tract 38 and 40.
12 We had those two allocations wrong back when we done the
13 original disbursement. The disbursement that was made was
14 \$197,000 to Tract 40 and actually that was too much. I don't
15 have those numbers right before me, what the original
16 allocation was.

17 BENNY WAMPLER: Are these numbers correct that are
18 on here?

19 LESLIE K. ARRINGTON: The ones that's on the new
20 spreadsheet are correct, yes, and what we're showing is a
21 negative balance in Tract 40 after that \$197,000 disbursement
22 was made.

23 MARK SWARTZ: If you come down to 4/25/99, you'll
24

1 see the disbursement, or the net change of \$197,565, and that
2 resulted in an overpayment out of Tract 40 of \$3,501.11. The
3 problem that caused that was, if you go back to 10/25/96,
4 there were originally two checks that we were showing on the
5 spreadsheet, and it turned out that the larger check of
6 \$227,000 actually included a \$903,000 check and that was...it
7 overstated the balance which is what caused the over
8 disbursement and, you know, reconciling this stuff. Again,
9 we caught that mistake. So, that's...that was the gist of
10 this. Now, Les, why don't you tell them what the proposed
11 solution here is.

12 LESLIE K. ARRINGTON: So, what we're proposing to do
13 here is to recoup a portion of the \$3,000, if you'll notice
14 the bottom here, we went ahead and ran that number through to
15 July the 31st and it comes out \$3,773.09; and what that was
16 doing was using a 6% interest rate to get it up to this date;
17 and what we're proposing to do, since both tracts included
18 Hugh McRae, is to recoup half that amount from the Hugh McRae
19 and reallocate it to the other owner in that tract, since
20 McRae received their money, and the other half, \$1,886, to
21 reimburse the escrow account for that \$1,886, since the other
22 party was Garden Realty and they're not a party to the...in
23 this Tract 38.

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1 MARK SWARTZ: And so basically to summarize for
2 Sandy's purposes, this order needs to allow us to pay, and
3 allow the escrow agent to accept, a deposit of \$1,886.55,
4 which will balance this account in light of the overpayment
5 and when we disburse Tract 38, we will recoup \$1,886.54 from
6 Hugh McRae who was overpaid out of Tract 40, and then the
7 entire account will be in balance.

8 SANDRA RIGGS: What's the recoup amount out of 38?

9 MARK SWARTZ: It's...it's \$1,886.54. There's a
10 penny that we're accounting for and we're leaving the extra
11 penny in the escrow account. And, again, we'll have to agree
12 with Jill, as we were talking about doing in the previous
13 unit, now that we have the bank records, we can run the Tract
14 38 disbursement forward through June to what the bank records
15 and we need to check, you know, the deposits because our
16 spreadsheet does not run that past the end of last year.

17 JILL HARRISON: That's fine. But I don't
18 understand...tell me...explain to me again, because I have
19 last years spreadsheet and these deposit numbers match the
20 deposit numbers you have on here.

21 MARK SWARTZ: There were...do you want to show her,
22 Les?

23 JILL HARRISON: I mean, I've got 10/25/96, and these
24

1 numbers are exactly the same as what you have as 10/25/96 on
2 this sheet. So, that doesn't show any difference of \$3,6---

3 (Mr. Arrington and Mr. Swartz explains it to Ms.
4 Harrison. Board members discuss the spreadsheets among
5 themselves. Off record.)

6 BENNY WAMPLER: So, what do you suggest?

7 MARK SWARTZ: That we be allowed to deposit
8 \$1,886.55 into this account.

9 SANDRA RIGGS: Tract 40?

10 LESLIE K. ARRINGTON: Into Tract---

11 MARK SWARTZ: Well, we don't really have to deposit
12 anything into Tract 40 because we took other peoples' money
13 essentially.

14 SANDRA RIGGS: Well, that's why I want to know, what
15 tract are they to credit.

16 MARK SWARTZ: We just need to zero out Tract 40.

17 BENNY WAMPLER: Yeah, they're trying to go to zero.

18 SANDRA RIGGS: Okay.

19 MARK SWARTZ: Okay?

20 SANDRA RIGGS: Oh. To bring up the negative
21 balance.

22 MARK SWARTZ: Right.

23 SANDRA RIGGS: Okay.

24

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1 MARK SWARTZ: And see, we need to...we need to zero
2 out Tract 40. We need to be allowed to deposit \$1,886.55,
3 which is the amount we can't recoup from the overpayment to
4 Garden Realty that needs to go back into this account to
5 balance the overall escrow account. Okay?

6 JILL HARRISON: So, is that why the numbers match,
7 Mark? That would make sense then, if we took money from
8 Tract 40 that we shouldn't have and then Tract 38---

9 MARK SWARTZ: Well, except there are other tracts as
10 well. But, yeah.

11 JILL HARRISON: No, there's only two tracts.

12 MARK SWARTZ: Oh, there's only two. Okay.

13 JILL HARRISON: 38 and 40. And there's only two
14 parties in each one.

15 MARK SWARTZ: Right. That would...that would
16 account for part of the difference, but until you factor in
17 the interest, I'm not prepared to say that they...that our
18 numbers should work, because we don't have their interest.

19 JILL HARRISON: Okay. Well, then it sounds to me
20 like you all are going to have to take their numbers and
21 compare it to what you have before we finally come up and
22 say, yes, \$1,886 whatever is exactly the number that needs to
23 come out of there.

24

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1 SANDRA RIGGS: Then, can we handle this the same
2 way---?
3 MARK SWARTZ: Well, I---.
4 SANDRA RIGGS: ---we just handled the other one
5 except with the authority to redeposit?
6 MARK SWARTZ: Sure.
7 LESLIE K. ARRINGTON: Yes.
8 JILL HARRISON: That would make sense.
9 BENNY WAMPLER: Because you all are just going to
10 get together and reconcile those numbers.
11 JILL HARRISON: Sure. Right.
12 BENNY WAMPLER: You're not talking about big dollars
13 anyways.
14 JILL HARRISON: No. Unh-unh.
15 MARK SWARTZ: Right.
16 BENNY WAMPLER: We're dealing with---.
17 MARK SWARTZ: But just so everybody understands, we
18 need to...we need to balance this account by making a
19 deposit.
20 SANDRA RIGGS: The same conditions.
21 BENNY WAMPLER: We understand that.
22 SANDRA RIGGS: Right.
23 MARK SWARTZ: Okay.

24

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1 SANDRA RIGGS: So, the order should give you
2 authority to deposit \$1,886.55 for the overpayment to Garden
3 and to recoup a like amount---.

4 JILL HARRISON: Overpayment to Torch.

5 BENNY WAMPLER: \$1,886.54.

6 SANDRA RIGGS: Overpayment from Torch out of this
7 disbursement.

8 MARK SWARTZ: Out of the disbursement and that will
9 zero that...that will get us all back to a balanced account.

10 JILL HARRISON: And on Garden, I'll need to check
11 with Ms. Keen about letting her know that \$1,800 was too much
12 and that you guys were going to---.

13 MARK SWARTZ: At some point, we're going to---.

14 JILL HARRISON: ---work it out some other way.

15 MARK SWARTZ: Right.

16 LESLIE K. ARRINGTON: Uh-huh. Right.

17 JILL HARRISON: Okay.

18 BENNY WAMPLER: Okay. Is there a motion to that
19 effect?

20 MAX LEWIS: I make that motion.

21 MASON BRENT: I second.

22 BENNY WAMPLER: Second. Any further discussions?

23 (No audible response.)

24

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

2 (All members signify yes.)

3 BENNY WAMPLER: Opposed, say no.

4 (No audible response.)

5 BENNY WAMPLER: You have approval.

6 CLYDE KING: You all did agree on it?

7 JILL HARRISON: Yes, sir. We'll work it out with
8 the numbers.

9 BENNY WAMPLER: They...they know what they're
10 dealing with. The next one is VGOB-97-0415-0576, drilling
11 unit SLW7. We'd ask the parties that wish to address the
12 Board in this matter to come forward at this time.

13 JILL HARRISON: I don't think I've put my name on
14 the record before, Mr. Chairman. I'm Jill Harrison with Penn
15 Stuart in Abingdon. I represent the applicants for
16 disbursement in this matter. I'm sorry about that.

17 MARK SWARTZ: We feel like we've...we have...in the
18 spreadsheet that we've shared with you this morning, we have
19 one forward, the undisbursed tail balances here that need to
20 be disbursed through 12/31/99 for the various tracts, and the
21 only thing that we were missing was to be able to run that
22 the current period. Basically, out of Tract 39, as of
23 12/31/99, there was a balance that needed to be disbursed of

24

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1 \$99.56 and whatever current, you know, earnings would add to
2 that. Out of Tract 30, we've got an undisbursed balance as
3 of 12/31/99 of \$57.65. I'm sorry. That's for...there's
4 \$57.65 for Tracts 41B and C that needs to be disbursed
5 through 12/31/99, and \$2,3806 for Tract 30 and we just need
6 to run those numbers forward with the new accounting
7 information. Essentially what happened there, the
8 disbursements were made when they should have included
9 interest that accrued up to the time the disbursement was
10 made, and they didn't.

11 JILL HARRISON: Okay.

12 MARK SWARTZ: Okay. So, we'll...you know, we'll do
13 the accounting and get with Jill. I mean, this one seems
14 really straight forward.

15 JILL HARRISON: This is the one that really bothered
16 me about the fees either being charged against, or back. I
17 mean, if you look at the balance that's on here through
18 December the 31st of '99 and compare it to the end of '98, I
19 mean, there's barely even 3% earned on the money. So, does
20 the bank basically...I mean, have they got a specific
21 percentage that they're charging, do we know on the fees?

22 SANDRA RIGGS: It depends on whether you were under
23 the old contract or the new contract, because the fee

24

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1 structure is different.

2 JILL HARRISON: On both?

3 SANDRA RIGGS: Yeah.

4 JILL HARRISON: Okay. Because I noticed a lot of
5 times, you go down through here---

6 SANDRA RIGGS: They had a per transaction under the
7 old contract and they're not doing the---

8 JILL HARRISON: Ummm.

9 SANDRA RIGGS: Yeah.

10 JILL HARRISON: That's a nice chunk of change.

11 SANDRA RIGGS: They're not...it's not that way under
12 the new contract.

13 BENNY WAMPLER: No.

14 SANDRA RIGGS: So, you'd have to look at when those
15 fees happened, whether it was pre-December '99 or post
16 December '99, and then look at the fee schedule according to
17 which escrow agent was in place.

18 JILL HARRISON: Because...I mean, based on this,
19 \$8,600 didn't even earn \$210 in interest in a twelve month
20 time period. I mean, my little CDs do better than that.

21 (Board members confer among themselves.)

22 BENNY WAMPLER: Just...just for you folks'
23 curiosity, you can take these Board order numbers in this

24

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1 record now and find the balance and the interest and what's
2 in there by the unit.

3 FRANK STACY: Mr. Chairman?

4 BENNY WAMPLER: But this is kind of a tract detail
5 that you're getting...that goes behind that.

6 FRANK STACY: I'm sorry. If I may, do you have an
7 additional copy available right now that I could---?

8 BENNY WAMPLER: No.

9 FRANK STACY: Okay, sir.

10 BENNY WAMPLER: No.

11 CLYDE KING: So, you all have agreed on that one?

12 JILL HARRISON: Yes, sir. It's the same as the
13 first two. They'll take the numbers and bring it forward.

14 CLYDE KING: Is a motion in order?

15 BENNY WAMPLER: Yes.

16 CLYDE KING: I so move.

17 BENNY WAMPLER: I have a motion to approve
18 disbursement.

19 MASON BRENT: I second.

20 BENNY WAMPLER: I have a motion and second.

21 SANDRA RIGGS: With the same...the same condition
22 that they had reached agreement?

23 BENNY WAMPLER: The same condition, right, they had
24

1 reached agreement on. I have a motion and second. Any
2 further discussion?

3 (No audible response.)

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

5 (All members signify yes.)

6 BENNY WAMPLER: Opposed, say no.

7 (No audible response.)

8 BENNY WAMPLER: You have approval.

9 JILL HARRISON: Thank you very much. I appreciate
10 your time.

11 BENNY WAMPLER: Thank you. The next item on the
12 agenda is the Board will consider a petition from Equitable
13 Production Company for a well location exception for a
14 proposed conventional well V-4026. This is docket number
15 VGOB-00-07/18-0816. We'd ask the parties that wish to
16 address the Board in this matter to come forward at this
17 time.

18 JIM KISER: Mr. Chairman and members of the Board,
19 Jim Kiser on behalf of Equitable Production Company. Our
20 witness in this matter will be Mr. Don Hall. He's passing
21 out an exhibit here for your edification and understanding at
22 this point.

23 (Don Hall distributes exhibits.)

24

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1 JIM KISER: We don't have anybody else?

2 BENNY WAMPLER: Swear the witness.

3 (Witness is duly sworn.)

4 JIM KISER: There's nobody else?

5 BENNY WAMPLER: No. The record will show there are
6 no others. You may proceed.

7

8

DON HALL

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

11

DIRECT EXAMINATION

12 QUESTIONS BY MR. KISER:

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

15 A. My name is Don Hall. I'm employed by
16 Equitable Production Company as District Landman.

17 Q. And you're familiar with the application
18 that we filed seeking a location exception for well number V-
19 4026?

20 A. Yes.

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

23 A. Yes, they do.

24

--

1 Q. And have all interested parties been
2 notified as required by Section 4B, the Virginia Gas and Oil
3 Board Regulations?

4 A. Yes, they have.

5 Q. Now, would you indicate for the Board the
6 coal, oil and gas ownership underlying well number V-4026?

7 A. The...it's owned by the Hagan Estate.

8 Q. And they're the sole mineral owner within
9 the unit?

10 A. Yes.

11 Q. And does Equitable Production Company have
12 the right to operate the reciprocal wells?

13 A. Yes...yes, we do.

14 Q. That being V-4028 and V-4025 and V-4029?

15 A. That's correct.

16 Q. Now, are there any correlative rights
17 issues?

18 A. No, there isn't.

19 Q. And could you explain for the Board in your
20 own words in conjunction with the exhibit you have prepared,
21 the reasons why we're seeking a location exception for this
22 well?

23 A. This location is located on the Hagan
24

1 Estates oil and gas lease, which we have leased from them and
2 it's on U.S. Forest Service surface. We...we have to do an
3 environmental assessment for each of these locations and this
4 is where the Forest Service asked us to put this well, or
5 chose to put this well. In addition to the fact that it's
6 where they chose it, we had no place in that area that would
7 have been a legal location, or would have been 2,500 feet
8 from all wells. If we move it from the point where it is
9 now, it would just be closer than 2,500 feet to another well.
10 So, it's an area that we don't have any place to put a legal
11 location.

12 Q. And in the event this location exception was
13 not granted, would you project the estimated loss of
14 reserves?

15 A. I've been advised it would be 450,000,000
16 cubic feet.

17 Q. And what is the total depth of the proposed
18 well under the plan of development?

19 A. 3...3,675 feet.

20 Q. Will this be sufficient to penetrate and
21 test the common sources as supplied in the subject
22 formations?

23 A. Yes, it will.

24

--

1 Q. And are you requesting that this location
2 exception cover conventional gas reserves to include the
3 designated formations from the surface to the total depth
4 drilled?

5 A. Yes, we are.

6 Q. And in your opinion, will the granting of
7 this location exception be in the best interest of preventing
8 waste, protecting correlative rights and maximizing the
9 recovery of the gas reserves underlying the unit for V-4026?

10 A. It would.

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

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

15 (No audible response.)

16 BENNY WAMPLER: Do you have anything further?

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

19 MAX LEWIS: I make a motion we approve it as
20 presented.

21 BENNY WAMPLER: A motion to approve.

22 CLYDE KING: I second.

23 BENNY WAMPLER: And second. Any further discussion?
24
25

1 (No audible response.)

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

3 (All members signify yes.)

4 BENNY WAMPLER: Opposed, say no.

5 (No audible response.)

6 BENNY WAMPLER: You have unanimous approval. The
7 next item on the agenda is a petition from Equitable
8 Production Company for a well location exception for a
9 proposed conventional gas well V-4019; docket number VGOB-00-
10 07/18-0817. We'd ask the parties that wish to address the
11 Board in this matter to come forward at this time.

12 JIM KISER: Mr. Chairman and Board Members, again,
13 Jim Kiser on behalf of Equitable Production Company. And
14 again our witness will be Mr. Hall who's handing out an
15 exhibit to...it explains the testimony in this matter.

16 (Don Hall distributes exhibits.)

17 BENNY WAMPLER: The record will show there are no
18 others. Mr. Hall, you've been previously sworn. You may
19 proceed.

20

21 DON HALL

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

24

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1 DIRECT EXAMINATION

2 QUESTIONS BY MR. KISER:

3 Q. Mr. Hall, you're familiar with the land
4 involved in the unit for V-4019 and in the surrounding area?

5 A. Yes.

6 Q. And you've reviewed the application that we
7 submitted seeking a location exception for this well?

8 A. I have.

9 Q. And all interested parties been notified as
10 required by Section 4B?

11 A. They have.

12 Q. And would you indicate for the Board in this
13 case the ownership of the coal, oil and gas underlying this
14 unit?

15 A. Penn Virginia Resources own the coal, oil
16 and gas.

17 Q. And does Equitable have the right to operate
18 the reciprocal wells, not only the well from which we're
19 seeking an exception, which is VP-3239, but the other five
20 wells as depicted at your exhibit?

21 A. We do.

22 Q. And there are no correlative rights issues?

23 A. No, they're not.

24

1 Q. Could you, again, in conjunction with the
2 exhibit you've prepared, explain for the Board reasons why
3 we're before them seeking this exception?

4 A. Again, this is on the U.S. Forest Service
5 surface. And through the environmental assessment, this
6 location was chosen by them. And, again, we have nowhere in
7 this vicinity where we...where we were able to move this. We
8 would still have no legal location.

9 Q. In fact, we'd probably be seeking an
10 exception from more than one reciprocal well?

11 A. Correct.

12 Q. And in the event this exception were not
13 granted, would you again project the estimated loss of
14 reserves?

15 A. I've been advised it would be 450,000,000
16 cubic feet.

17 Q. And what is the total depth of this proposed
18 well?

19 A. 4,300 feet.

20 Q. And this will be sufficient to penetrate and
21 test the common sources of supply in the subject formations
22 as listed in the permit application?

23 A. Yes.

24

--

1 Q. And are you requesting that this location
2 exception cover conventional gas reserves to include the
3 designated formations from the surface to the total depth
4 drilled?

5 A. Yes.

6 Q. And in your opinion, will the granting of
7 this location exception be in the best interest of preventing
8 waste, protecting correlative rights and maximizing the
9 recovery of the gas reserves underlying the unit for V-4019?

10 A. Yes, it would.

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

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

15 (No audible response.)

16 BENNY WAMPLER: Do you have anything further?

17 JIM KISER: We'd ask, again, that the application be
18 approved as submitted.

19 BENNY WAMPLER: Is there a motion?

20 MASON BRENT: So moved.

21 BENNY WAMPLER: A motion to approve. Is there a
22 second?

23 MAX LEWIS: I second it.

24

1 BENNY WAMPLER: Second. Any further discussion?

2 (No audible response.)

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

4 (All members signify yes.)

5 BENNY WAMPLER: Opposed, say no.

6 (No audible response.)

7 BENNY WAMPLER: You have unanimous approval. Thank
8 you very much.

9 DON HALL: Thank you.

10 BENNY WAMPLER: Mr. Wilson, did you have anything
11 you wanted to---?

12 BOB WILSON: Yes, sir. The Division of Gas and Oil
13 has just had an internal audit completed of our operations
14 there and one of the findings of the audit, and I'll read
15 here, "It was during March 1999, a financial audit of the Gas
16 and Oil Board escrow fund was submitted to the Board for the
17 period of January 1, '94 until December 31, '96. We believe
18 that an audit of the next three years, January 1, '97 until
19 December 31, '99 would be cost effective and provide
20 additional safe guards to the Gas and Oil Board for escrow
21 account." That period of time would take us to the end of
22 the period in which First Virginia and predecessors had the
23 escrow account.

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1 Our auditor...our internal auditor thinks that we
2 should undertake to contract an independent outside audit of
3 the escrow account through the end of 1999 to...it will
4 simultaneously close out that section and also give us more
5 assurance of where we stand on that. What I'd like to do
6 today is to put this out for the Board to discuss, and if
7 they agree to get an authorization to proceed, to set up the
8 RFP and proceed with this audit.

9 CLYDE KING: How long do you think that would take?

10 BOB WILSON: I don't the...to get the RFP together,
11 we would be talking late fall, I would imagine, before we got
12 it out. The last audit, from looking back through the
13 records, took a matter of months to complete and that was
14 possibly not quite as thorough an audit as we would like this
15 time.

16 CLYDE KING: You're talking about by December to be
17 finished?

18 BOB WILSON: No...no, I don't think it would be
19 finished by December. I would say that by the time we get an
20 RFP out and select a contractor and let the contract...,that
21 will be in the fall at that time; and most likely, the audit
22 would not be completed before next year at this time. I
23 think it would be a reasonable guess.

24

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1 SANDRA RIGGS: I think the process they used the
2 last time is the auditor mailed letters out to each operator
3 asking them to verify each and every deposit made into the
4 escrow account, and then that's depending on the operators
5 responding back, and then compiling the responses; and what
6 the audit told us in the end was that all deposits were
7 accounted for. It isn't going to address the kind of
8 accounting issues that we're talking about today and that is
9 the sub-accounting and reconciliation down to the tract
10 levels.

11 BENNY WAMPLER: But...but it is making sure that
12 what's the Board is responsibility---

13 CLYDE KING: So, really what---

14 BENNY WAMPLER: ---for is...you know, is balanced
15 and accounted for.

16 CLYDE KING: Check...checking the last bank that
17 handled it, First Virginia?

18 BENNY WAMPLER: Well, it will bring it up through
19 the last...it will go all the way back to where we had the
20 first audit completed and come forward through the end of
21 First Virginia's involvement, if that makes sense, and what
22 we're requesting is the Board's authorization to go ahead and
23 employ---

24

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1 CLYDE KING: I move that we allow that to happen.

2 BENNY WAMPLER: A motion. Is there a second?

3 MASON BRENT: I second.

4 BENNY WAMPLER: Motion and second. Any further
5 discussion?

6 (No audible response.)

7 BENNY WAMPLER: All in favor, signify by saying yes.
8 (All members signify yes.)

9 BENNY WAMPLER: Opposed, say no.
10 (No audible response.)

11 BENNY WAMPLER: You have approval. Anything
12 further, Mr. Wilson?

13 BOB WILSON: No, nothing further.

14 BENNY WAMPLER: And does the Board have anything
15 further?

16 (No audible response.)

17 BENNY WAMPLER: Are you still interested in going to
18 the Breaks in October and maybe set up a little tour we had
19 talked about at one time?

20 MASON BRENT: Sure.

21 CLYDE KING: I think that's great. I think we need
22 to do it again.

23 MASON BRENT: I think we ought to go the Peaks of
24

1 Otter instead. It's closer to Richmond.

2 BENNY WAMPLER: All right. Thank you very much.

3 That concludes our business.

4

5 STATE OF VIRGINIA,

6 COUNTY OF BUCHANAN, to-wit:

7 I, SONYA MICHELLE BROWN, Court Reporter and Notary

8 Public for the State of Virginia, do hereby certify that the

9 foregoing hearing was recorded by me on a tape recording

10 machine and later transcribed by me personally.

11 Given under my hand and seal on this the 24th day
12 of July, 2000.

13 NOTARY PUBLIC

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15 My commission expires: August 31, 2001.

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