

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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8
9 February 18, 2003

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12 APPEARANCES:

13 MASON BRENT, GAS & OIL INDUSTRY REPRESENTATIVE

14 BENNY WAMPLER, DIRECTOR OF THE DMME & CHAIRMAN

15 BILL HARRIS, PUBLIC MEMBER

16 DONALD RATLIFF, COAL INDUSTRY REPRESENTATIVE

17 SHARON PIGEON, COUNSEL FOR THE BOARD WITH THE ATTORNEY

18 GENERAL'S OFFICE

19 BOB WILSON, DIRECTOR OF THE DIVISION OF GAS & OIL AND ACTING

20 PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD

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***Copy of agenda attached

1 BENNY WAMPLER: Good morning. My name is Benny
2 Wampler. I'm Deputy Director for the Virginia Department of
3 Mines, Minerals and Energy, and Chairman of the Gas and Oil
4 Board. I'll ask the Board members to introduce themselves,
5 starting with Mr. Brent.

6 MASON BRENT: My name is Mason Brent. I'm from
7 Richmond and I represent the gas and oil industry.

8 SHARON PIGEON: Sharon Pigeon, with the office of
9 the Attorney General.

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

12 DONALD RATLIFF: Donald Ratliff, representing the
13 coal industry from Wise County.

14 BOB WILSON: I'm Bob Wilson. I'm the Director of
15 the Division of Gas and Oil and principal executive to the
16 staff of the Board.

17 BENNY WAMPLER: The first item on the agenda today
18 is a petition from Pocahontas Gas Partnership for a
19 modification of Oakwood I Field Rules to allow for drilling
20 of multiple wells in the units DD-20 to DD-31, EE-20 to EE-31
21 and FF-20 to FF-31. This is docket number VGOB-93-0216-0325-
22 01. We'd ask the parties that wish to address the Board in
23 this matter to come forward at this time.

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1 MARK SWARTZ: Mark Swartz on behalf of the
2 applicant, and Les Arrington and Rick Toothman.

3 ELLEN VANCE: I'm Ellen Vance. I am a landowner in
4 that area.

5 BENNY WAMPLER: Okay. Thank you. Welcome. The
6 record will show there are no others. You may begin.

7 MARK SWARTZ: We've got some exhibits. If we
8 haven't already...we've already passed them out?

9 LESLIE K. ARRINGTON: Yes, we have.

10 (Mark Swartz and Leslie K. Arrington confer.)

11 BENNY WAMPLER: Do you have an extra copy of the
12 exhibits to give Ms. Vance?

13 MARK SWARTZ: Yes.

14 (Mark Swartz hands a copy of the exhibits to Ms.
15 Vance.)

16 MARK SWARTZ: Before we get going, can we talk a
17 little bit about what we're asking for, get you guys focused,
18 I think. We've prepared two draft orders. I think you're
19 going to have a choice to make with regard to allocation of
20 production. So, these are exhibits as well.

21 (Mark Swartz distributes exhibits.)

22 MARK SWARTZ: We'll get you sort of aimed in the
23 right direction of what is it we're asking for.

24

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1 BENNY WAMPLER: Are you going to have witnesses?

2 MARK SWARTZ: Yes.

3 BENNY WAMPLER: Let's go ahead and get everybody
4 sworn then, if you will.

5 (All witnesses are duly sworn.)

6 MARK SWARTZ: Okay, this is a petition to modify
7 the Oakwood Field Rules with regard to a specific area. Rick
8 has put up a picture that shows the proposed area. If you'll
9 look at the exhibits that Les passed out to you this morning,
10 there is...and/or the application that we filed, there is a
11 grid map which is a more detailed map of the proposed area
12 that's on the screen there. It shows the units that Mr.
13 Wampler referred to when he called this case. They're
14 shaded. Those are the 80 acre Oakwood units that we are
15 seeking a modification with regard to the Oakwood order. You
16 will notice that the top two rows are, in fact, 80 acre units
17 and the last row or the southern most row of the shaded units
18 are makeup units. They're larger than 80 acres as often
19 occurs at the boundary. Then right below the proposed area,
20 and on the Exhibit A1 with the application it's shown in
21 detail, are the Middle Ridge units which are 60 acre units
22 which I think those field rules were promulgated perhaps a
23 year or little over a year ago. This is really the boundary

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1 of the Oakwood Field, an area that's the boundary of the
2 Oakwood Field butting up against the Middle Ridge Field,
3 which is depicted generally on the exhibit you've got on the
4 wall there.

5 What we are asking the Board to do...and this kind
6 of focuses on the...on the two orders that we are...that we
7 have drafted. The only difference between these orders is at
8 paragraph...a paragraph that starts on the bottom of page two
9 with 6-C, and that paragraph 6-C deals with how would you
10 allocate production from these additional wells that we're
11 seeking to drill. That's the only differences with the two
12 orders, and we'll get to that later.

13 But the relief that we're asking for here is to
14 allow additional drilling in the proposal area that would
15 equate to roughly 60 acre spacing, and that is all that we're
16 asking for. Basically to allow us to drill increased density
17 or infill wells in that proposal area. The testimony today
18 will essentially offer you our reasons for that request that
19 we think will justify additional or increased drilling in
20 that...in that proposed area. That is all we're asking for.

21 We're not asking to modify the Oakwood Field outside of the
22 proposal area.

23 Just from the standpoint of...one more thing to get
24

1 you focused and then I'll start...or call Mr. Arrington. But
2 if you look at this map in the packet that was passed out
3 today, it's a property map that shows well locations. We are
4 in an area in the Oakwood Field where we do not have mine
5 plans on file. So, we do not have an ability to drill
6 increased density wells as we have in other places in the
7 Oakwood Field where we have mine plans and we can drill
8 consistent with mine plans to degas in advance of mining.
9 But you will notice here that if we don't have one well in
10 every one of these units...you know, we almost do in terms of
11 the Oakwood units. Then if you look to the south, we've got
12 wells in pretty much everyone of the abutting Middle Ridge
13 units. And what we are...what we're seeking is to drill
14 additional wells in some of these units to create a spacing
15 approximating 60 acre units.

16 Okay, with that, I'd like to call Mr. Arrington.

17

18 LESLIE K. ARRINGTON

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

21 DIRECT EXAMINATION

22 QUESTIONS BY MR. SWARTZ:

23 Q. Les, you need to state your name.

24

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1 A. Leslie K. Arrington.

2 Q. Who do you work for?

3 A. CNX Gas Company.

4 Q. And did you either prepare or caused to be
5 prepared under your supervision this application?

6 A. Yes, I did.

7 Q. What, if anything, did you do to give Notice
8 with regard to this application?

9 A. We mailed the notice of application and...
10 the notice of hearing and application by certified mail
11 return receipt requested was mailed on January the 17th,
12 2003; and the notice of hearing was also published in the
13 Bluefield Daily Telegraph on January the 25th of 2003.

14 Q. And have you filed proofs of publication and
15 of mailing with the Board today?

16 A. Yes, we have.

17 Q. Okay. And in the notice of hearing, you've
18 got a list that goes on almost for a page and a half. Do you
19 see that?

20 A. Yes...yes, we do.

21 Q. And to the extent that you had addresses,
22 would it be true that you tried to mail to everyone of those
23 people?

24

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1 A. Yes, we did.

2 Q. Okay. And the specifics with regard to
3 mailing and addresses and so forth and receipt cards is in
4 the exhibit you filed this morning?

5 A. Yes, it is.

6 Q. Are these list of folks that you noticed
7 today a complete list to the best of your knowledge of the
8 folks who have an interest or have a claim regarding coalbed
9 methane in the area that's depicted in the A1...the map of
10 the A1 units?

11 A. Yes, it is.

12 Q. Okay. And were you...are those units that
13 are shaded on Exhibit A1, are some of those units that have
14 been pooled by Board order?

15 A. Yes, they are.

16 Q. Are some of the voluntary units that you've
17 created because you have leases from everyone?

18 A. Yes, they are.

19 Q. Okay. So, in all instances though, are the
20 shaded units either pooled by Board order or pooled
21 voluntarily?

22 A. Yes, they are.

23 Q. And so you have title on all of those units?
24

1 A. Yes, we do.

2 Q. And that's what enabled you to do the list
3 of respondents?

4 A. Yes.

5 Q. The applicant here is a Virginia General
6 Partnership, correct?

7 A. Yes, it is.

8 Q. And Pocahontas Gas has two partners?

9 A. Yes.

10 Q. And those partners are Consolidation Coal
11 Company and Consol Energy, right?

12 A. That's correct.

13 Q. Does Pocahontas Gas Partnership have a
14 blanket bond on file with the DMME?

15 A. Yes, it does.

16 Q. Has it registered with the DMME?

17 A. Yes, it has.

18 Q. And is that partnership authorized to do
19 business in the Commonwealth?

20 A. Yes.

21 Q. Is it true that this application seeks to
22 modify the Oakwood I Field Rules with respect to the units
23 depicted on Exhibit A1?

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1 A. Yes, it is.

2 Q. Okay. And is, in general, your request that
3 you be allowed to drill additional wells on a spacing that
4 results in approximately 60 acre spacing?

5 A. Yes, it does.

6 Q. Are all the wells that have been drilled to
7 date in these units frac wells?

8 A. Yes, they are.

9 Q. And they're producing from the Oakwood pool,
10 which would be from the Tiller on down?

11 A. All seams below the Tiller, yes.

12 Q. Okay. And wells that you...additional wells
13 that you would propose to drill would be what kind of wells?

14 A. They too would be frac wells or coalbed
15 methane wells.

16 Q. Coalbed methane frac wells producing from
17 the Oakwood pool?

18 A. Yes.

19 Q. In the exhibits...I know we've talked about
20 an exhibit illustrating additional wells in the unit EE-25.
21 Do you have that plat and some extra copies?

22 A. Yes.

23 Q. I'm not sure it made it into the---.

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1 (Anita Tester distributes the Exhibits to the
2 Board.)

3 (Mark Swartz confers with Leslie K. Arrington and
4 Rick Toothman.)

5 Q. Les, is this an example of some infill
6 drilling that you would propose to do?

7 A. Yes, it is.

8 Q. And you've selected EE-25 as an example?

9 A. I did.

10 Q. Okay. And tell the Board what...where is
11 the existing well and where are the wells that you would, by
12 way of illustration, propose to be allowed to drill?

13 A. Yes. The existing well EE-25 is well number
14 1 there. Additional wells would just...just as an example,
15 1...number 2 would be a well within the drilling window.
16 Number three would be outside the window within the 300 foot
17 boundary of the Oakwood unit.

18 Q. Okay, to refresh everybody's recollection
19 with regard to the Oakwood Rules, generally the Oakwood units
20 are 80 acres, correct?

21 A. Yes.

22 Q. The EE-25 unit, in fact, is an 80 acre unit?

23 A. Yes, it is.

24

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1 Q. If we compare it to the FF-25 right below
2 it, it's obvious that the FF-25 is a little bigger---?

3 A. It is.

4 Q. ---because it's a makeup unit---?

5 A. It is.

6 Q. ---on the edge of the field?

7 A. Yes. Just a quick note on that, that's
8 approximately 9 to 10 acres difference than what it normally
9 is.

10 Q. Usually they're 89 and change, right?

11 A. Yes.

12 Q. Okay. Now, the Oakwood Field Rules, as
13 originally promulgated, called for something called a
14 drilling window, correct?

15 A. Yes, it did.

16 Q. Now, the Oakwood units are outlined in green
17 on this exhibit?

18 A. Correct.

19 Q. And the drilling windows are where?

20 A. The black...the drilling windows are the
21 black.

22 Q. Okay. And what's the offset from the
23 boundary of the unit, the green line, to the drilling window?

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1 A. 300 feet.

2 Q. Okay. And in general, the intent of the
3 Oakwood Rules was, unless there was some mining reason or
4 other good reason, that the operator would be required to put
5 the wells in the drilling window, correct?

6 A. That's correct, he was.

7 Q. And here you have proposed by way of
8 illustration an additional well that actually fits in the
9 drilling window, correct?

10 A. Yes, it does.

11 Q. And then one which is in the offset area?

12 A. Correct.

13 Q. Okay. The...while you're up there, it would
14 probably be a good time to talk about this. The blue hash
15 mark line, what does that represent?

16 A. That represents a 60 acre boundary, square
17 boundary, around well number three.

18 Q. Okay. And you've put well number three in
19 the center of that 60 acre square?

20 A. Yes, we did.

21 Q. And that 60 acre conceptual unit around well
22 number three includes four Oakwood units, right?

23 A. Yes, it does.

24

--

1 Q. And we have had a debate about the way in
2 which production ought to be allocated from well number three
3 to the owners and claimants, haven't we?

4 A. We have.

5 Q. Okay. And the two orders that we have
6 tendered to the Board essentially take two different
7 viewpoints of how that might work?

8 A. Yes, it does.

9 Q. Okay. And there's the Les Arrington
10 view---?

11 A. Yes, there is.

12 Q. ---and then there's the Mark view, right?

13 A. Yes.

14 Q. Okay. And let's start with yours.
15 What...what is it that you would propose that the Board adopt
16 as a means of allocating production?

17 A. Okay. As you're going to hear from Rick
18 Toothman, we have testimony to say that we're going to
19 produce some of this on a 60...basically 60 acre spacing.
20 What my proposal is a 60 square around the well outside the
21 drilling unit, 60 acre square and then the production from
22 this well will be allocated to this proportional amount here
23 to this unit.

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1 Q. Okay.

2 A. In that sense in doing so, this unit, this
3 80 acre unit, stays intact, your order are all good. You
4 have no additional pooling. All the owners are protected. I
5 don't...you know, personally I don't see...I see us
6 protecting everyone there.

7 Q. Basically, what you're saying is you would
8 calculate the acreage in FF-25 that is also in the 60 acre
9 unit, right?

10 A. That's correct.

11 Q. You would put that over 60 and you would get
12 a percentage?

13 A. That's correct.

14 Q. And you would take that percentage times the
15 total production coming from well three?

16 A. That's correct.

17 Q. And that volume of those dollars would then
18 find their way to unit FF-25?

19 A. Correct.

20 Q. And would be distributed to everyone having
21 an ownership or claim interest in FF-25 whether or not they
22 own land that is within the blue boundary?

23 A. That's correct.

24

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1 Q. Okay. So, essentially you would be
2 spreading the royalty in this example among the owners of 320
3 acres?

4 A. Yes.

5 Q. Okay. And an advantage of this would be...
6 in addition to spreading the revenues among more people, an
7 additional advantage would be to the extent that the Board
8 has entered a pooling order...let's assume that the Board had
9 a pooling order in place with regard to FF-25, okay?

10 A. Okay.

11 Q. And let's assume that escrow was required
12 because there were conflicting ownership claims in FF-25. We
13 would already have an escrow order in place that would allow
14 you to pay as an operator the allocable share from...
15 production from well three into the escrow account for unit
16 FF-25, correct?

17 A. That's right.

18 Q. And one of the pooling orders...or one of
19 the modification orders that we have tendered to the Board
20 today, in fact, we've drafted a provision...an allocation
21 provision that tries to track the concept that you have?

22 A. Yes, we did.

23 Q. And that would be the one that...it's kind
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1 of hard to tell the difference here.

2 A. It is.

3 (Mark Swartz reviews the documents.)

4 Q. The way to tell the difference is that your
5 order would require the operator when you filed the well
6 permit for well three, okay, to tender a certified plat of
7 this 60 acre drilling unit and then a certified exhibit
8 attributing production to the units affected by this unit,
9 and that's what the order in respect to sharing revenue this
10 way would provide.

11 The alternative, which the other order addresses,
12 would be to take, and since we have production from all of
13 these units and we have title and we have mapping, would be
14 to actually take the property maps, correct?

15 A. Yes.

16 Q. And then map and calculate the acreage of
17 each owner or claimant within the blue grid and only allocate
18 production to folks have tracts within that blue grid. So,
19 basically if you took the property map exhibit, you would...
20 you know, we would use the property maps that we have and
21 overlay the new 60 acre drilling unit with the well as a
22 center point and then calculate...you know, identify the
23 owners or tracts within this piece, within this piece, within

24

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1 this piece and within this piece and then take their acreage,
2 put it over 60 and that would be their percentage from that
3 well, correct?

4 A. That's...that is...that's the proposal.

5 Q. And if that procedure were followed and
6 escrow were required, we would have to file in all instances
7 a miscellaneous petition with the Board to get...to order the
8 escrow agent to take money because we wouldn't currently have
9 an ability to escrow, correct?

10 A. That's correct.

11 Q. With regard to units that we can either
12 voluntarily pool or units that had been pooled by Board order
13 though, it would now mean necessarily to make a return trip
14 to the Board because we've already pooled the coalbed methane
15 in all of these units, correct?

16 A. That's...we have.

17 Q. Okay. Which of the two proposed orders
18 would you recommend?

19 A. Well, personally, as I said, I see that we
20 should...the way I see it, we should allocate the production
21 to the...to the units and the reason being is we already have
22 orders in place for each unit. We've always told the Board
23 if we wanted to recoup cost for an additional well, we would

24

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1 come back and ask for the additional well. This way we have
2 nothing further to do other than to allocate the production
3 per the proportional part to each unit.

4 Q. But obviously, the Board's going to have to
5 make some kind of a choice from the standpoint of correlative
6 rights and so forth.

7 A. That's correct.

8 Q. And administrative efficiency as to what
9 proposal makes more sense to them.

10 A. And that's the reason we brought both
11 proposals.

12 Q. I mean, obviously, you're going to pay the
13 same amount of money under either proposal of royalties?

14 A. That's correct.

15 Q. So, it really does not have an economic
16 consequence in terms of the amount that's paid, but it does
17 have some administrative impacts on all of us?

18 A. That's correct.

19 Q. Les, you can probably have a seat.

20

21 RICHARD LYLE TOOTHMAN, JR.

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

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1 DIRECT EXAMINATION

2 QUESTIONS BY MR. SWARTZ:

3 Q. Okay, Rick, do you want to state your name
4 for me?

5 A. Yeah, it's Richard Lyle Toothman, Jr.

6 Q. Have you testified before the Board before?

7 A. Yes, I have.

8 Q. And at least on one occasion, I think it was
9 with regard to the Middle Ridge Rules, right?

10 A. That's correct.

11 Q. And your concept with regard to Middle
12 Ridge, as I recall, was that 60 acre units were appropriate
13 there?

14 A. That's correct.

15 Q. Okay. Have you done additional work and
16 study with regard to the production of the coalbed methane
17 wells both in the Oakwood Field and the Middle Ridge Field
18 since the Middle Ridge Rules were implemented?

19 A. Yes, we have.

20 Q. And I'm just going to start with a chart to
21 kind of focus the research and the thinking and then we can
22 move from there. But let's start with the...I think it
23 should be the last page of the exhibit book that was passed
24

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1 out today. Is this a chart that you've prepared, Rick?

2 A. Yes, it is.

3 Q. Okay. Tell us what it tracks and then let's
4 talk about what we think it means.

5 A. All right. These are actually...this is a
6 graph of coalbed methane production from some wells in the
7 Oakwood Field. These wells were originally spaced on 80 acre
8 spacing. This is the production in blue of the original 80
9 acre unit. You can see that the first well came on mid-1997.
10 You'll see two sets of lines. You'll see the squiggly line
11 in the blue and then one that's a little bit more jagged.
12 This represents the well count. So, you can see from about
13 this point on, we have 23 wells on 80 acre spacing. This is
14 basically the collective production profile of those wells.
15 What we're trying to show, and what we wanted to look at,
16 this is within an area that does fall within a projected mine
17 plan which allows us to go any type of spacing deemed
18 necessary to degas potential mine area.

19 Q. Okay, let me stop you there. The blue
20 production line represents wells in the Oakwood Field?

21 A. That's correct.

22 Q. And at least initially, those wells were one
23 well per 80 acre spacing?

24

--

1 A. That's right.

2 Q. Okay.

3 A. And this represents 23 wells combined.

4 Q. Okay. And the...and what we see is the

5 combined production increasing and then sort of leveling out

6 or perhaps tapering off---?

7 A. That's---.

8 Q. ---if we look at the blue line?

9 A. That's correct.

10 Q. Okay. What is the, I guess, orange line?

11 A. What this line represents is when we came

12 back in at a later date, which was at that point around the

13 year 2000. We infilled drilled, which means that we placed a

14 second well in an 80 acre unit. At this point, we brought on

15 an additional 23 wells. So, you're looking at just the

16 performance of those additional wells, the infill wells at

17 this time. What this represents is that these wells came in

18 and peak production was around...I guess you could say almost

19 4,000 Mcf per day from the 23 wells combined is where it

20 peaked. Again, you've got a slight decline, which is normal

21 in any type of coalbed methane production. The interesting

22 thing that we saw here, however, was that when we looked at

23 the performance of the old well, the old wells as you can see

24

1 were starting a slow decline. Again, that's pretty natural
2 and you would expect that decline rate to continue on until
3 you reach some economic limit. But at the point where these
4 additional wells came on, you see that not only did these
5 wells perform very similar to the initial wells, but what you
6 actually see is an increase in production from the old wells.
7 I can basically explain that with the next slide, but what
8 that tells you is that the we promoted some interference in
9 the field. Coalbed methane is unique from conventional oil
10 and gas wells in the fact that interferences are good, but by
11 reducing the reservoir pressure, you actually release more
12 methane and allows us to produce more gas.

13 Q. In terms of production, what would happen
14 here in terms of enhanced production, is your infill wells
15 came in producing on an average considerably more than the
16 wells you started with?

17 A. Correct.

18 Q. And they drag the production of the existing
19 wells along with it, right?

20 A. That's right.

21 Q. So the interference you're talking about
22 essentially enhanced the production in two ways, increase the
23 production of the existing wells, thereby generating more
24

1 production, more dollars for royalty owners, from the wells
2 that are already in place, but made the new wells
3 economically more productive as well?

4 A. That's right. In laymen's terms, you do two
5 things with this, and that is that you accelerate production.
6 You push the production back to time zero and you will
7 increase ultimate recovery from the well because you're
8 ultimately going to reduce the reservoir pressure.

9 Q. Now, the...what's the slide that illustrates
10 the...there we go.

11 A. What this slide represents is, it's called
12 the Langmuir Isotherm, but it basically describes the
13 relationship and the way gas is stored and/or released in
14 coal. This is an actual isotherm that was created for one of
15 the coal seams, the most noteworthy in the area, the
16 Pocahontas No. 3 seam, and basically what I want to
17 illustrate is this, that at 500 pounds, it's basically saying
18 at this that you're holding somewhere less than 500 cubic
19 foot per ton, call it 480. When you release or reduce the
20 reservoir pressure from 500 to 400, you'll get this isotherm
21 and it'll tell you that now you have the ability to hold 450
22 cubic foot per ton. So the difference here, the cross
23 hatched area, means that a reservoir pressure reduction of

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1 100 pounds, from 500 to 400, will release about 30 cubic foot
2 per ton of methane.

3 The significant thing about this is if you look at
4 a similar 100 psi drop in pressure, from 200 to 100, you drop
5 the gas content from 350 to...well, call it 250. So for the
6 same 100 pound pressure drop in the reservoir, you now are
7 releasing over a 100 cubic foot per ton. The significance of
8 this is that if you look, you can see the steepness of this
9 curve at very low pressures, meaning that the bulk of the gas
10 is stored at very low pressure. By putting more well bores
11 into a given area that allows us to drive this average
12 reservoir pressure to a...basically closer to zero, and in
13 doing that, will allow us to recover more gas because we can
14 take the abandonment pressure to a lower rate, and
15 additionally, as we showed earlier, will also allow us to
16 accelerate our recovery.

17 Q. Now this Langmuir Isotherm is essentially a
18 physical principle or observation with regard to reservoirs
19 generally, correct?

20 A. That's correct. It's a mathematical
21 relationship that describes the way the gas is stored and/or
22 released.

23 Q. And if we look at...if we could flip back to
24

--

1 the chart that we started with.

2 A. Now you're taxing me a little bit, but let's
3 see what we can do.

4 Q. Okay. Is it your opinion that the actual
5 performance of wells that is illustrated by this graph, on 80
6 acre spacing and then on 40 acre spacing, is consistent with
7 the isotherm that we just discussed, the physical principle?

8 A. Yes.

9 Q. And that would be, I take it, that as you
10 increase interference and lower reservoir pressure, all of
11 the wells...the performance of all of the wells improves in
12 general?

13 A. That's correct.

14 Q. So the point then would be at year 2000
15 would be when that effect could be observed? Essentially
16 when the two lines cross---?

17 A. That's correct.

18 Q. ---from that point forward is the effect of
19 the increased interference?

20 A. That's right. And sometimes, I will say
21 that depending on, obviously, the closer the spacing, the
22 quicker you'll see the interference. And what I mean by
23 that, we may bring on wells, let's say, on 60 acre spacing

24

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1 and that interference not actually start taking place for six
2 months to a year. The closer they are, the quicker you'll
3 draw down that interference.

4 Q. Okay. Another thing that I think we
5 probably need to point out to the Board. It looks like the
6 80 acre units were drilled over and came on line over a
7 longer period of time than the infill drilling?

8 A. That is correct.

9 Q. And you're going to get a much steeper curve
10 if you compress the time, correct?

11 A. That's right. If you look at the time from
12 the first well to the last well here, you're spanning, you
13 know...I don't know, nine months or so. That's probably the
14 reason for this peak being slightly higher, because from the
15 initial well to the last well on the infill, it was a little
16 bit less time. Yeah, we're not...we know that the average
17 performance is very similar to but not less than the initial
18 well.

19 Q. Obviously, one of the factors that you look
20 at in your position is the anticipated performance of the
21 wells that you're proposing to drill?

22 A. That's correct.

23 Q. Is it also true that you look at the dollars
24

1 and cents, or the cost of drilling wells in terms of whether
2 or not there is an economic incentive or not to drill
3 additional wells?

4 A. Absolutely.

5 Q. Have you addressed, not just the performance
6 of the wells when you do infill drilling, but have you...from
7 a production standpoint, but have you also addressed in terms
8 of unit size or density the question of economics?

9 A. Yes, we have. And, Mark, if we didn't do
10 that, I'd be here before the Board today and tell you that we
11 need to do these wells on ten acre spacing. From a technical
12 standpoint, the closer you get, the lower the pressure.
13 That's what we'd be here for, but dollars do come into play.
14 What we try to do is maximize the recovery of the resource
15 for the dollars that we spend for that resource.

16 Q. Okay. Let's look at the...at your graph
17 that looks like this and let's talk about the cost of wells
18 and the benefits of increased well density. Let's start
19 first, though, with...it's kind of hard to see on this chart,
20 and probably easier to see on the handout. Tell the Board
21 about the two short lines, the curves that come out two
22 years, and what those represent?

23 A. Okay. What these two shorter lines

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1 represent is within the area that we're here speaking about
2 today, we've already basically said that we're 80 acre
3 spacing and then just to the south of that, in the Middle
4 Ridge Field, we are, and have already proclaimed that those
5 field rules are set up on 60 acre spacing. So we took the
6 wells in both of those areas and we basically took a look at
7 the production to date and we've got wells on them that have
8 been on for about two years in both of those. And what we're
9 looking at here is the cumulative production and what mmcf
10 would have been recovered from those wells, and what you're
11 actually seeing, this is on a hypothetical 160 acre lease.
12 So we took all those wells, divide the acreage up to get a
13 160 acre unit, and said within a 160 acre unit, this is the
14 way the 80 acre wells are performing. Excuse me, I just did
15 that backwards. The 60 acre wells are performing right here.
16 And on the 80 acre unit, this is the way the wells are
17 performing. That is overlain on the results of a coalbed
18 methane simulator. And what we're trying to do, we wanted to
19 match the actual performance and we wanted to see if it made
20 sense to infill drill this area. The computer simulation
21 model matched, which is very similar to what we showed the
22 Board when we put together our Middle Ridge Field Rules a
23 year and half ago.

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1 On this hypothetical 160 acre lease, the
2 permeability in the area, we believe, that matches this
3 around...well, it averages out to be about four milidarcies.
4 It is a little bit directional. The height of the coal, or
5 the thickness of the coal, in the area is around 25 foot and
6 the frac length, we believe, is around 300 foot in each
7 direction.

8 What you actually see is the actual results
9 overlain on the results of our computer simulation of
10 production. If you take these two, we also threw a 40 acre
11 spacing unit in here as well, and if you take this
12 production, you can already see the discrepancy between the
13 performance of these wells. If you go out to ten years, you
14 can see that you're looking at about 250 million cubic foot
15 of gas additional that could be recovered on 60 acre spacing.

16 What you're looking at, on a hypothetical 160 acre lease on
17 80 acre spacing, that's two wells; on 60 acre spacing, it's
18 2.7 wells. So for less than an additional well per 160 acre
19 unit, you're going to recover over 250 million cubic foot of
20 gas in that first ten years of time.

21 Q. And just for comparison purposes, just to
22 remind the Board, the lines, the blue and the red and the
23 green line, they get all the way out for ten years, those
24

1 lines were drawn by a simulator?

2 A. That's correct.

3 Q. And the comparison of the first two years of
4 performance at least gives us some assurance that what we're
5 experiencing kind of looks like the line that the simulator
6 is drawing. So they seem consistent, correct?

7 A. That's correct.

8 Q. If we were to compare the production that
9 the simulator shows between 80 acre spacing which is two
10 wells, and 40 acre spacing which would be four wells, that
11 would be on the order of...I'm going to have to be able to
12 read, how many---?

13 A. 600.

14 Q. About 600...600 million cubic feet. And
15 what we're projecting for the difference between two wells at
16 2.7 is what, about 250?

17 A. Well, because it's only .7 wells, you're
18 probably looking at an additional \$150,000 for that
19 additional .7 well, and if you're looking for two additional
20 wells, you're probably looking at over a half a million
21 dollar investment.

22 Q. But we're looking at recovering for a cost
23 of roughly \$140 to \$150,000 dollars an additional .25 bcf.

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1 A. In ten years.

2 Q. Bcf in ten years.

3 A. Actually more than that over the life of a
4 normal well. But in ten years, that's correct.

5 Q. And from your perspective as someone who
6 makes decisions on whether or not to drill wells and makes
7 recommendations to the company in terms of spacing and so
8 forth, does that relationship, drilling essentially .7, you
9 know, tenths of a well and recovering an additional 250
10 million cubic feet of gas, does that relationship make
11 economic sense to your company?

12 A. Absolutely.

13 Q. Have you made assumptions with regard to
14 pricing, to look at economics?

15 A. Yes, we have.

16 Q. Is it possible that as prices change going
17 forward, additional wells might even make sense?

18 A. Yes, it would.

19 Q. At the present time, given the pricing
20 assumptions that you have made, can you tell the Board
21 whether or not, at least from your company's standpoint, a 40
22 acre unit would make economic sense?

23 A. At this point, with our gas price forecast,
24

1 we believe that 60 acre spacing is the most prudent way to
2 go. The way the gas pricing affects, obviously, an economic
3 model is the higher the gas pricing, the closer the spacing,
4 because you're getting more dollars up front. At this point
5 in time, no, we're not suggesting we go to tighter acre
6 spacing, but if gas prices would continue to remain high over
7 a period of time and we had some faith in that, there is that
8 possibility that within this area or probably other areas,
9 that we could come back and look at it.

10 Q. I think you have a chart that is a map of
11 drills...wells drilled in the area that was under
12 consideration in the Oakwood Field, and also in the abutting
13 Middle Ridge. Could you get that on the board? Are all the
14 dots wells that have been drilled?

15 A. Yes.

16 Q. And the wells to the south of this black
17 line would be Middle Ridge?

18 A. That's correct.

19 Q. And the wells to the north would be Oakwood,
20 correct?

21 A. That's right. And you can...with this light
22 gray color, you can kind of see the offset of this vertical
23 line and that...I've roughly tried to capture that with this

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1 box to show you there that we're interested in. But this
2 would be the Middle Field Rules and this would be the Oakwood
3 Field Rules.

4 Q. It appears to me that you have drilled a
5 well in every Middle Ridge unit to the south except perhaps
6 one, correct?

7 A. That is correct.

8 Q. And where is that missing well?

9 A. That missing well is right here.

10 Q. Do you happen to know why there isn't a well
11 there?

12 A. I'll defer to Les, but I believe it has to
13 do with some land issues.

14 LESLIE K. ARRINGTON: It does.

15 MARK SWARTZ: Les?

16 LESLIE K. ARRINGTON: It's land issues.

17 MARK SWARTZ: You just can't get a location.

18 LESLIE K. ARRINGTON: We will have.

19 MARK SWARTZ: Okay. But currently that's been the
20 problem?

21 LESLIE K. ARRINGTON: Yes, it is.

22 Q. Looking at the well locations above the line
23 in the Oakwood area that we're considering, it appears that
24

1 there are a considerable number of open areas where
2 additional wells could be drilled. Would that be your view?

3 A. There are open areas, not according to the
4 field rules.

5 Q. No, no.

6 A. I mean, you know, I'll just highlight,
7 there's definitely areas in here that there's not very
8 adequate well coverage, in my opinion.

9 Q. I think you have...a moment ago you had
10 flipped past a slide which I think is a coal thickness map.

11 A. Yeah.

12 Q. Let's take a quick look at that. You have
13 assumed for purposes of your projections, I think, a coal
14 thickness of 25 feet?

15 A. That's correct.

16 Q. And that would be by adding up seams that
17 you would expect to produce, or drainage seams that you would
18 expect a well to produce from?

19 A. That's right.

20 Q. And is this a coal thickness map that you
21 have available to you that is again overlaid by the boundary
22 area we're talking about?

23 A. Yes, it is.

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1 Q. And the range of the thicknesses...is the
2 green area the 25 feet?

3 A. Yes, it's 25 to 30 foot, I believe, in the
4 green area. You can see 35 here. Mark, one thing, though,
5 that we do is although we know that we've got as much as 35
6 foot, because of the mechanism of stimulation, we always know
7 that there are some holes that we probably don't adequately
8 stimulate; therefore, we can't ever say that we produce 100%
9 of the coal seams that are there. You know, we assume
10 something a little less than was actually there.

11 Q. Or this potentially will?

12 A. This potentially will.

13 Q. And that's why you picked the 25?

14 A. That's correct.

15 Q. Let me see if there's anything else we need
16 to consider.

17 A. This map also shows structure. We wanted to
18 make it look...we wanted to compare the thickness of both the
19 areas and make sure we were comparing apples to apples, and
20 make sure that there was no structural reasons for one area
21 to produce differently than the other. Amazingly enough,
22 here we do have an anti-cline feature that runs through here,
23 but it's pretty much right in the center of the boundary

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1 between the two fields; therefore, if this is on a northern
2 flank of an anti-cline, we don't suspect that there's
3 anything structurally that would affect production in this
4 area that we've done all these comparisons.

5 Q. In terms of your recommendation as an
6 engineer to the Board, what spacing, at least for this area
7 that's under consideration today, would you recommend?

8 A. I would recommend for this area that we
9 follow and adopt similar rules as the Middle Ridge with 60
10 acre spacing.

11 Q. And do some infill drilling to try and get a
12 more even form 60 acre spacing through the area that's we've
13 got in the rectangle there?

14 A. That's correct.

15 Q. And is it your opinion that that would in
16 fact benefit owners and claimants in not only producing more
17 gas from new wells, but also enhancing the production?

18 A. Yes, I believe so.

19 MARK SWARTZ: Mr. Chairman, I think that's all I
20 have of my two witnesses here.

21 BENNY WAMPLER: Any questions from members of the
22 Board?

23 (No audible response.)

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1 BENNY WAMPLER: Did you do a comparison of the
2 Middle Ridge production versus the Oakwood plan production?
3 Your infill drilling that you've done, did you actually
4 compare those two?

5 A. Say that again?

6 BENNY WAMPLER: Your Middle Ride production?

7 A. That's exactly what we looked at on the
8 cumulative slide that I showed you.

9 BENNY WAMPLER: Uh-huh.

10 A. This right here is the actual Middle Ridge
11 production on 60 acre spacing; however, it wasn't all of the
12 Middle Ridge. It was kind of a like size of the box. So the
13 box that we're proposing right now, we looked at the wells
14 that were immediately below that and didn't try to go any
15 further, because some of those other wells are newer wells.
16 We don't have enough production history to compare them. The
17 bubble map that we just showed you right here, the comparison
18 that we're looking at was essentially this block compared to
19 this block immediately below it. The Middle Ridge Field does
20 continue with some wells down here, but they're newer and we
21 don't have much production with those yet.

22 BENNY WAMPLER: What are those color codes?

23 A. What we're looking at here was, we call it a
24

1 production bubble map. What you're looking at is a...there
2 is a date associated with each one of these and that was the
3 month that the wells came on. The size of the bubble
4 corresponds to the average production from the well. So,
5 obviously, this is one of the better wells. You know, one of
6 the poorer wells in the field would be right here at this
7 time. We use this as a mechanism to evaluate performance of
8 individual wells, to identify problems or reasons and so
9 forth. Then the big number that's underneath here would give
10 you the last month's production. So even though you've got
11 some wells... I'll try to use an example, pick one out.
12 Here's a well that is not as big as AX-113 as far as the
13 bubble is, but if you'll take a look at last month's
14 production, that means that this well is inclining. It
15 produced 14,000 cubic foot or 14 million cubic foot last
16 month. This well is very close. I can't read that, but I
17 think around 15.5 or something like that.

18 BENNY WAMPLER: I guess this is what...this
19 particular (inaudible) what kind of raised the question for
20 me because I thought that's what those colors represent, the
21 size of those represented. It appeared to me that you've
22 already got more of the bigger bubbles, if you will, in the
23 upper...in the Oakwood than you do down in the Middle Ridge.

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1 A. Well, I don't think you do when you're
2 taking a look at some of these bubbles right here on your
3 average that are taking place. As you can see, we don't have
4 any of the red colors on the top of the field rules. The
5 biggest thing that concerns me is the distribution of the
6 wells. You know, you're going to get a well that sets, you
7 know, in the middle of production, say right here, that's
8 surrounded by good wells, you're going to promote the
9 interference that's necessary to drain all this acreage from
10 a uniform spacing. Where you run into problems is when
11 you're looking at an area like this, or like this, that these
12 wells are not going to interfere with this area. So this is
13 not going to be adequately drained over the same period of
14 time.

15 Part of the...even though these are attempted to be
16 equally spaced, even on 80 acre units, topography dictates a
17 lot of...a lot of why we've got well placements the way we
18 do.

19 BENNY WAMPLER: On the chart that Les was working
20 with, talking about how to set up the pay system where you
21 had the well that was outside the window---

22 A. Yes.

23 BENNY WAMPLER: ---of the Oakwood.

24

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1 A. Uh-huh.

2 BENNY WAMPLER: Let's go to that. Is it your
3 opinion that the interference from well three is contained to
4 those four Oakwood...existing Oakwood units?

5 A. You talking about these four units?

6 BENNY WAMPLER: Yes.

7 A. Yes.

8 BENNY WAMPLER: Other questions from members of the
9 Board? Ms. Vance, do you have questions?

10 ELLEN VANCE: Yes, I have several questions and it
11 may be an informational as well. I do own land in the
12 Oakwood area. My parents also do as I. I've heard a lot and
13 I do work for a large corporation, and I do understand the
14 economics of investment and things like that, but I've heard
15 nothing as far as the landowner's safety and we do live
16 within the area that all these wells are being drilled on,
17 and I don't know how close they are getting to the houses and
18 the interruption that it's going to be for these landowners.
19 I do know that I do have property there as well. I have
20 heard nothing to that effect as far as anything, and how is
21 the land going to be reclaimed, what disturbance is that
22 going to be to the lifestyle there. Maybe someone could
23 answer that.

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1 MARK SWARTZ: Les, would you give the Board an
2 estimate of the percentage of wells that are drilled on
3 property where you have reached an agreement with the surface
4 owner to allow you to drill, or you have acquired the
5 surface, compared to the situations where you do not have an
6 agreement with the surface owner and are relying on mining
7 rights or some other ancient deed rights?

8 LESLIE K. ARRINGTON: I'm going to go to these
9 areas that Rick was showing up there where he was showing our
10 two areas of the one, the study area and then the Middle
11 Ridge area to the south. Within those areas, if I recollect,
12 I don't believe I have a well up there that I would have had
13 to done, per say, own rights. We done some sort of an
14 agreement, purchase. We've done right-of-ways, easements,
15 bought the well sites, and what have you.

16 MARK SWARTZ: Would you get that...that map back
17 up?

18 LESLIE K. ARRINGTON: Now, as far as environmental
19 controls go, we do our very best to protect environment.
20 Safety wise, I don't know of any safety situations that we
21 have out there. I certainly hope we have none. If we do and
22 we're not looking after it, I would certainly like for
23 someone to point it out to me. It will be addressed

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1 immediately. We do not drill within 200 feet of a house.
2 Pipelines are without a variance, not closer than 50 feet of
3 a dwelling. So, you know, if there is a concern out there,
4 certainly bring it to me and we'll address it.

5 MARK SWARTZ: And all of these wells have permits,
6 correct?

7 LESLIE K. ARRINGTON: They certainly do.

8 MARK SWARTZ: And there is a process to apply for a
9 permit through Mr. Wilson's office, correct?

10 LESLIE K. ARRINGTON: Yes, sir, and everyone within
11 the production unit that's a royalty owner gets copies of it.
12 Everyone's surface that's going to be disturbed gets a copy
13 of that application. They have a chance to object to it,
14 negotiate with us if we have not already. The majority of
15 the time...majority of the time now, I'll qualify that. The
16 majority of the time before I send a permit out, we have a
17 deal with the surface owners by some sort of easement, right-
18 of-ways, acquisitions. So, do we do wells on rights, yes we
19 do, but so---.

20 MARK SWARTZ: In these...in this area that we've
21 got up on the map, the area that we're talking about which is
22 in the black box.

23 LESLIE K. ARRINGTON: Yes.

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1 MARK SWARTZ: And the area in the Middle Ridge
2 field below, can you recall at this point if there are any
3 wells that are depicted on this exhibit that are drilled on
4 rights as opposed to property that's owned by your company or
5 property that your company has obtained an agreement with the
6 surface owner?

7 LESLIE K. ARRINGTON: You know, from recollection,
8 I do not know of any, and the one that we did have a problem
9 with, that Rick pointed out that we don't have yet, we're
10 still working on that and hope to have it in the future.

11 MARK SWARTZ: Still working on the agreement with
12 the surface owner?

13 LESLIE K. ARRINGTON: Yes.

14 ELLEN VANCE: I guess my question again would be 50
15 feet within a welling, that's---.

16 MARK SWARTZ: It's 200 feet.

17 ELLEN VANCE: It's 200 feet within a house. And
18 then my concern is the proposal to make it within 60 acres
19 instead of 80 acres. That's actually pulling those wells
20 closer together with all that pressure that's going to be
21 there. In my assumption, that's going to make it a more
22 vital area for all the gas that's going to be coming out of
23 that area. I guess my concern is things do happen, and

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1 heaven forbid that they do happen, has anything been
2 addressed with any situations to that effect?

3 LESLIE K. ARRINGTON: I'm really not...I really
4 don't understand your question, but I don't see...I don't see
5 a problem with increasing the number of wells. We will be
6 reducing the pressure on the coalbed methane that's down
7 there and I really...I don't see a problem. The wells are
8 cased and only the seams that we intend to stimulate are
9 opened up and so on. I mean, I really don't see a problem.

10 ELLEN VANCE: But you don't know for a fact?
11 That's just from what your experience has been.

12 LESLIE K. ARRINGTON: From our experience, there is
13 not a problem situation there from our experience.

14 RICHARD LYLE TOOTHMAN, JR.: It's important to note
15 that coalbed methane wells are operated at very, very low
16 pressure, too. And again, that's one significant difference
17 between this and a conventional well which, you know, you may
18 have a thousand pounds of well head pressure. These things
19 are operated at less than ten pounds of pressure at the
20 surface. So you don't have a dangerous blowout situation.
21 If you put ...the reason we pump the water off is that it
22 takes very little to actually kill a well, which in our terms
23 means that it will not produce any coalbed methane because

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1 they are at very low pressures.

2 The only other thing that I'd like to point out is
3 that the significant portion of pipeline power and everything
4 in this immediate area is already in place on 80 acre
5 spacing. So what we're talking about adding would be some
6 well sites, but would be some very small pipelines and so
7 forth in relationship to this existing area. Most of the
8 surface damage is the big pipelines that transport the gas
9 out and have already been installed.

10 BENNY WAMPLER: Let me try to go to her question at
11 a different angle with the engineer. When you drill these
12 additional wells and you gain this additional interference,
13 if a person, a homeowner, has a water well that may have a
14 little bit of gas in it now but not a whole lot, is it...in
15 your professional opinion/judgment, is it going to increase
16 the volume of water that that person might have coming into
17 their well?

18 RICHARD LYLE TOOTHMAN, JR.: Is it going to
19 increase the amount of water?

20 BENNY WAMPLER: Amount of gas, I'm sorry. The
21 amount of gas coming in?

22 RICHARD LYLE TOOTHMAN, JR.: No. In my
23 professional opinion, I don't think so. By putting

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1 additional wells and you're drilling the pressure down, if
2 these wells are producing and active, it's easier for it to
3 flow into these wells bores at very low pressures than it
4 would be into a water well, in my opinion.

5 ELLEN VANCE: I have one other question pertaining
6 to water. Not everyone up in this area is on city water, if
7 you should say. What happens if these landowners actually
8 lose their water source, which is pumped from a well, a water
9 well or reservoir?

10 RICHARD LYLE TOOTHMAN, JR.: You want me to answer
11 that, Les, or do you want to handle that?

12 LESLIE K. ARRINGTON: I will. What we do, and I
13 hope we've been to your residence there. What we do prior to
14 us going in any area, we send out a company, EMI, and they do
15 an entire water survey of that area, and before we go in to
16 drill any wells, we have that survey done. When the well
17 permit is submitted, they then go back again and they do a
18 survey within 750 feet of each well. We have a sample of
19 that person's well. We have...we do an interview with the
20 person that lives there to know a little bit of history of
21 that well. So if there is a water problem, you know, we've
22 got some prior history. When a person calls and says
23 something happened to my water well, we're required by the

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1 State regulations, any water well or water source within 750
2 feet of that well, we're required to take care of that
3 problem. And to this date, have we had any water complaints
4 associated to drilling down here...to drilling, no ma'am, we
5 have not. We have had some other situations where we've had
6 to take care of water. There wasn't anything associated to
7 drilling.

8 Now as far as the gas situation, the question you
9 asked, we...to stimulate a coal seam, we came up with a
10 formula that we done ourselves and the State kind of asked us
11 to do that, and we don't stimulate any coal seam that is
12 closer than 500 feet below the bottom of that water well. So
13 if you have a water well, say, at 100 feet, the first coal
14 seam that we can stimulate will be at 600 feet. So we've
15 always...we try to evaluate all those water wells and know
16 that we're at minimum 500 feet below the bottom of that water
17 well.

18 RICHARD LYLE TOOTHMAN, JR.: And that's for any
19 well that falls within 1500 foot?

20 LESLIE K. ARRINGTON: Yes, sir.

21 RICHARD LYLE TOOTHMAN, JR.: So I a hypothetically,
22 a well...let's say, right here, we draw a hypothetical 1500
23 foot circle around that and survey within that point and a
24

1 water well, even if it's 1480 foot away, whatever the depth
2 of that well is, we will stay 500 foot below that deepest
3 part of that well.

4 LESLIE K. ARRINGTON: Yes. And along with that, if
5 there's not a water well within that circle, the lowest point
6 in elevation that we can find on that topographic map, then
7 the closest the coal seam is 500 feet below that lowest
8 elevation. So we always, in stimulating, we try to stay 500
9 below the bottom of the deepest water well, or the lowest
10 point in elevation within 1500 feet.

11 ELLEN VANCE: But if that did happen, you guys do
12 step in and make amends to that?

13 LESLIE K. ARRINGTON: Yes, ma'am, we do.

14 BENNY WAMPLER: Mr. Brent.

15 MASON BRENT: In this slide, in the area there, the
16 Nora, there's roughly 40 wells in that area right now. How
17 many additional wells would you estimate would be required to
18 achieve the interference, the economic interference, with the
19 well?

20 RICHARD LYLE TOOTHMAN, JR.: Les, you've done a
21 number---.

22 LESLIE K. ARRINGTON: I do...our number...I've done
23 a quick review of the topography, property, spacing up in

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1 that area and I'm estimating according to easements, right-
2 of-ways, acquisitions, between 20 and 25 additional wells.
3 If I don't get the 20, you know, we just don't get there.
4 But it's somewhere in that neighborhood. I think 20 would be
5 a good number.

6 BENNY WAMPLER: In that area, there's a lot of the
7 Oakwood units that haven't had any wells drilled?

8 LESLIE K. ARRINGTON: Up here?

9 BENNY WAMPLER: Yes.

10 LESLIE K. ARRINGTON: I believe---.

11 BENNY WAMPLER: According to the well...let me...
12 maybe I'm looking at two different areas. This map.

13 LESLIE K. ARRINGTON: I'd have to look at the map.
14 There might be on the eastern side. Yes, over on the
15 eastern edge, the eastern side.

16 BENNY WAMPLER: Right.

17 LESLIE K. ARRINGTON: That's where we're active.
18 Right there on the eastern road, that's where we're active
19 right now.

20 BENNY WAMPLER: So there will be?

21 LESLIE K. ARRINGTON: Yes, there will be for 80
22 acre spacing. Yes.

23 BENNY WAMPLER: Mr. Wilson, do you have any
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1 comments for the Board, questions?

2 BOB WILSON: No, sir.

3 BENNY WAMPLER: Would you go to the slide again,
4 please? Les talked about the financial aspect here. The
5 well...yes. Maybe I'm the only one, but I think I'd like to
6 hear the two proposals again. I won't if the rest of you
7 wouldn't benefit by that, but if you will, go through those
8 again.

9 MARK SWARTZ: What, the two orders?

10 BENNY WAMPLER: The orders...yes, what you're
11 asking us to do.

12 MARK SWARTZ: Les's concept, which he has slowly
13 brought me around, Les's concept will be for the number three
14 well, you would make four calculations. You would put the
15 amount of acreage in each of these four units, this piece
16 here, this piece here, so forth. Over 60 acres you have four
17 percentages.

18 BENNY WAMPLER: That's anytime a well is outside...
19 is inside the drilling unit? I mean, is it outside the
20 drilling unit, but inside the---

21 MARK SWARTZ: The offset area.

22 BENNY WAMPLER: ---the offset area.

23 MARK SWARTZ: The...well, let me back up even more.

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1 The reason we're not talking about well two, just to remind
2 everybody, the Board or the predecessor of this Board, made a
3 determination, a policy decision, that if we're 300 feet off
4 a boundary, off a unit of boundary, that it was fair to
5 assume, or safe to assume, that most of the production was
6 going to come from that unit. You'll notice today that Rick
7 was using a 300 foot frac length. I think initially when we
8 were in the field, we weren't sure where we were going to be
9 on our frac lengths and I think there was speculation that we
10 might be further. He's using, you know, for their own
11 purposes in the company, a 300 foot frac length or frac wing
12 in all directions as an assumption of the area that you frac
13 and that you've improved your drainage. So that the science
14 and the experience, I think, of what would come is probably
15 validated in retrospect to this 300 foot offset, but there
16 was a policy decision that the predecessor of this Board made
17 that if the operator drove in the drilling window, it was
18 fair and safe to assume that most of the drainage, if not
19 all, came from the unit. So we're not talking about unit
20 two. The only time that this allocation becomes a problem,
21 and the order so provides that if you're in the drilling
22 window, you're fine. The only time that this would be an
23 issue would be if you're in this area between the drilling
24

1 window and the edge of the unit, wherever you are. And as
2 you can see, since this is a 60 acre unit, there are...you
3 know, there's a possibility if you just have two units. You
4 know, you're not necessarily going to have four units every
5 time. If you move this over here and you put a well here,
6 you know, the 60 acres would only encompass two Oakwood
7 units. But the idea is that you would calculate the acreage
8 of a unit in the 60 acre square that you're drawing around
9 the new well, you would take that percentage and that you
10 would multiply then times the revenue or the production, and
11 that would flow, in Les's scenario, to for example, FF-25,
12 and then be distributed in accordance with the division of
13 interests that were established by the Board order or by the
14 voluntary unit to all of the owners in FF-25. So,
15 essentially in this example here where we've got four units,
16 the production from well three would go to 100% of the people
17 having real estate ownership, you know, mineral interests, in
18 a total of 320 acres.

19 The alternative plan is to look at the underlying
20 tracts, not the Oakwood grid, and look at who owns land or
21 mineral interests within that 60 acre blue grid and
22 recalculate their acreage, limited only to that 60 acres.

23 Then you would distribute the revenue and the production from
24

1 the well number three only to people who actually own mineral
2 interests within the blue grid. And that's the difference in
3 the two proposals.

4 The administrative headaches associated with the
5 second proposal, you know, are...I don't know if they're
6 extreme but they're considerable. I mean, because there are
7 many, many units that we have where we've got escrow issues.
8 And we would have to be back here every time that happened,
9 because the escrow agent is not going to take the money from
10 our operator without an order. I don't...you know, I don't
11 know from your standpoint, from a correlative rights
12 standpoint and a policy standpoint...you know, it's probably
13 ...if you just look at it on a correlative rights
14 standpoint, it is probably better to spread the revenue from
15 well three over the maximum number of acres to the maximum
16 number of people. From a drainage standpoint, the physics of
17 the drainage probably is an argument against it. It's a
18 policy decision. And Les and I were joking yesterday
19 afternoon that if we made a recommendation, you would
20 probably do the opposite because you figure we have a card up
21 our sleeve. So we decided to just simply...I mean, these are
22 the two options I think that are available to you at a
23 reasonable solution to the allocation. We really can't...I

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1 don't see that there is a reason that you shouldn't just
2 simply do either one. Beyond that---

3 MASON BRENT: Considering the strategy, there must
4 be a third.

5 (Laughs.)

6 ELLEN VANCE: Be a third.

7 MARK SWARTZ: Not if you go with the 60 acre unit.

8 BILL HARRIS: Let me ask a question about
9 production.

10 BENNY WAMPLER: Mr. Harris.

11 BILL HARRIS: Thank you. I think the testimony
12 earlier was that if you do drill, for instance
13 hypothetically, number three, that should increase production
14 from the surrounding four wells because of this pressure
15 situation. So was that EE-24, EE-25, all of those will
16 increase...well, I won't say will, should increase based on
17 the computer calculation or simulation?

18 MARK SWARTZ: You definitely...I think it would be
19 safe to assume, based on what Rick was telling you, that EE-
20 25 and EE-24, if you only drilled well three, that there
21 would be an enhanced...there would be a kick to the
22 production to those two wells. I'm not sure I could make
23 that stretch down to FF-24.

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1 RICHARD LYLE TOOTHMAN, JR.: Well, it's a function
2 of time. You probably could---. You probably could. It may
3 not be immediate---

4 MARK SWARTZ: Eventually.

5 RICHARD LYLE TOOTHMAN, JR.: Yeah, but with time
6 definitely.

7 MARK SWARTZ: And the other thing that's important,
8 and I think that you've seen from the drilling maps, field
9 rules and assumptions with regard to drilling windows and so
10 forth, really only work if people go in there and drill up
11 the field. And from the maps that we've shown you, I mean,
12 this company, you know, is drilling up these fields. And so
13 I think the better way to answer your question, Mr. Harris,
14 is to say that I think it is very safe to assume that if
15 there are 20 additional wells drilled in the area under
16 consideration and we fill in these holes, there will be
17 interference with virtually all of the pre-existing wells
18 fairly quickly, which I think was the point of your question
19 from the standpoint of if this is benefitting all these
20 people directly, I assume is where you're coming from.

21 BENNY WAMPLER: I guess from a correlative rights
22 standpoint, I'm having trouble getting outside that box
23 around number three. I don't see how you can get outside

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1 that box on number three from a correlative...you're
2 essentially overlaying an Oakwood Field 80 acres with...
3 you're asking for a modification of that field here in these
4 instances where you believe that an additional well could go
5 in. It's not like just saying modify Oakwood to allow
6 additional wells. It's saying we're going to go to 60 acre
7 spacing in these certain instances. To me, when you do that,
8 then you do have, in my mind, you have...in order to have
9 correlative rights protection, you would have to go to those
10 parties within that. So I guess if that was your scenario...
11 I believe that your scenario, legal scenario, has to work,
12 not being a lawyer. We've got two here at least. But in my
13 opinion, you would have to go to giving all those parties
14 within that three unit the right, and only those parties
15 within that three unit, the right to elect exception.

16 MARK SWARTZ: I'm not going to argue with you.
17 That was, you know, my proposal, but the more I thought
18 about, you know, Les's proposal, I had less and less
19 objections to it. I mean, you know---.

20 LESLIE K. ARRINGTON: The problem I see with that
21 is with ...we'll call...we'll reference it as number three,
22 with number three, as I thought about that, that would cause
23 you to have to come back before the Board to establish one,
24

1 the drilling unit; two, you would have to repool...once you
2 established that unit, you'd have repool it and establish, of
3 course, your escrow accounts and that's the reason for my
4 proposal.

5

6 MARK SWARTZ: Well, except, you know, once Les and
7 I started talking about that because he had...you know, the
8 pooling...let's assume that the Board has...just for the sake
9 of this discussion, let's assume that the Board has pooled by
10 order the four units that we're talking about. All of the
11 coalbed methane rights of everybody leased or unleased and
12 voluntary pooled or involuntarily pooled in those units have
13 been obtained by Board order. So, you don't need to repool
14 anything. But what you do need to if you're going to go on
15 the...if you're going to pay on well three to a drilling unit
16 that you guys are creating, because essentially what
17 you're...Benny is right. You're overlaying a set of hybrid
18 field rules over a field and over units that have already
19 been pooled. What I provided in the two draft orders was
20 what would...what should an operator file with Mr. Wilson
21 when seeking a well permit for well three that would give the
22 DGO and through the DGO, the Virginia Gas Oil and Oil Board,
23 the documentation that you needed to be sure that production

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1 was allocated appropriately? And what I provided was a 60
2 acre plat, okay, and under the scenario that Benny and I are
3 discussing right now, it would be the property interest and
4 the divisions of interest of the acreage of the individuals
5 or under the other scenario, it would be a plat providing the
6 four percentages in this example and a certification by the
7 operator that the plat was accurate, you know, just like we
8 always do and that the allocation procedures were accurate.
9 The only step that I think you would...the additional step
10 you would need beyond making the requirement that the
11 operator, when they apply for a well permit, that they supply
12 the information that's required to make those allocations.
13 The next step...then the only additional step would be a
14 Board order...or I think on a miscellaneous petition, to get
15 an order requiring the escrow agent to take the money
16 attributable to conflicting claims within the blue unit.

17 BOB WILSON: Mr. Chairman.

18 BENNY WAMPLER: Mr. Wilson?

19 BOB WILSON: I think one thing that needs to be
20 considered here is that, under this proposal, the Board is
21 being asked to authorize floating 60 acre units to be placed
22 in there wherever the operator feels the need for them.

23 We've already heard testimony that indicates that these

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1 additional wells will interfere with the existing wells that
2 are there. That's the whole purpose. It may be beneficial
3 and it may not be beneficial. I don't think the jury is
4 going to be in on that for a while. To some degree, I
5 believe that the recovery of gas is being significantly
6 speeded up. I don't think there's any doubt about that.

7 I think probably, again in the long term, the
8 cumulative effect is not going to be known for a long time, I
9 would suspect. But I think the major question is, or the
10 major consideration, is the fact that however this is defined
11 from a correlative rights standpoint, you need to acknowledge
12 the fact that you are affecting wells that are already there
13 in units already established by the Board and the Board is
14 now being asked to authorize additional units that are going
15 to float around the grid, which are going to effect that
16 previous authorization.

17 I see two different things that have to be done.
18 Number one, there has to be a decision as to whether there
19 are going to be additional wells allowed in these units at
20 all before there's even any necessity to consider the
21 correlative rights aspects of it, and making sure that it
22 fits in with the existing field rules, if they are
23 authorized, and then the determination of how the correlative

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1 rights are going to be addressed. I do see the possibility
2 of some administrative nightmares in some of these scenarios.

3 LESLIE K. ARRINGTON: Yeah.

4 BENNY WAMPLER: See, we've gone to---.

5 BILL HARRIS: Yeah, screen saver mode.

6 BENNY WAMPLER: ---screen saver. But, you know, I
7 guess...I'm not trying to turn this into a debate back and
8 forth between Mr. Wilson and myself. But in my view, here
9 again, if you have this overlay of the Oakwood Field with
10 these 60 acre units at the operator's discretion, all other
11 provisions of the law would apply, which would mean you would
12 have to come in and you would have to establish and you would
13 have to go through the pooling. You would have to do that,
14 in my view, in order to protect those correlative rights just
15 as you're saying. I mean, you could have folks in that...
16 just because they've been pooled and because you've had that
17 hearing before on the 80 acre, I don't think we can just
18 dispense with it and say we've been there before and we don't
19 have to do it again for 60 or 40 or 20 or 10. I think that
20 each time you do that the provisions of law would be
21 retriggered. I think that would help the sanity of the
22 administrative aspect of it because you'd have that record
23 ongoing.

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1 MARK SWARTZ: And we don't care about that either.
2 I mean, the problem we have is we know that the reality is
3 that infill drilling here makes a lot of sense for a lot of
4 reasons. The code only allows us to drill increase density
5 wells if we have a mine plan. We're not going to submit some
6 bogus mining plan in an area where we're not mining and we
7 don't have immediate plans to mine. So, I mean, our only
8 choice is to somehow to modify the Oakwood Rules to make this
9 happen. And if the Board feels that, you know, we need to
10 come back and pool 60 acre units, you know, we'll be back
11 pooling 60 acre units. I mean, I---.

12 BENNY WAMPLER: I'm not trying to create, you know,
13 work for work. I'm just trying to make sure if we do
14 the...if the Board does this, that we---

15 MARK SWARTZ: It's not going to run us off.

16 BENNY WAMPLER: ---retain all other provisions of
17 the law and people's rights are protected, you have a right
18 to come back each time. If they come to your property, you
19 have a right to come in here and state...and state, you know,
20 your reasons.

21 BILL HARRIS: Could we get the slide back up?

22 RICHARD LYLE TOOTHMAN, JR.: Yeah. Of that?

23 BILL HARRIS: Yes...yes, sir. I guess, one of the
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1 I guess comment or observation, and this is what we're
2 talking about, if you are a surface owner or a claimant to
3 the mineral rights and you're at that upper left corner of
4 the FF-25 black drilling window and you're overlapping into
5 the blue area. So, if you drill the number three and go with
6 one of the proposals that everyone in the blue, and only in
7 the blue, benefit royalty wise, then I'm going to get money
8 from that well production. Now, I'll also...the proposal
9 is...I mean, the assumption is engineering wise, and again
10 computer generated wise, is that FF-25 should increase
11 production---.

12 MARK SWARTZ: Right.

13 BILL HARRIS: ---based on the theory of what's
14 happening with the pressure. So, I'm going to benefit both
15 ways. Now, if I'm a land owner down anywhere else near FF-
16 25, now I'm not going to get the increased royalty from
17 number three----.

18 MARK SWARTZ: Correct.

19 BILL HARRIS: ---but I would expect, again assuming
20 that these projection are accurate, an increase in royalty
21 anyway because FF-25---.

22 MARK SWARTZ: Right.

23 BILL HARRIS: ---is going to increase. I don't
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1 know. I guess I'm just trying to wrestle with it myself.
2 I'm not sure what the best way to go.

3 MARK SWARTZ: Well, an argument...a correlative
4 rights argument is...a counter argument is that every...
5 everybody benefits because, whether or not they're in the new
6 unit, there is an enhanced production from the existing well
7 which the slide...you know, I mean, this is not a computer
8 model. This is actual. Okay, and when we...when we...when
9 we had 80 acre spacing, this is where we were. When we went
10 to 40 acre spacing in the same area by infill drilling, this
11 is where the existing wells went, the production went up on
12 average, and this is where the new wells went. So, I mean,
13 this is not a model. This is reality. This happened, okay,
14 in the Oakwood Field.

15 So, the people in the current drilling units
16 receiving royalties would benefit no matter what. Okay, the
17 people then who were...had mineral interest within the 60
18 acre units would benefit from that production in addition.
19 But everybody would presumably receive a benefit from the
20 interference.

21 One thing that...and I'm not sure that Mr. Wilson
22 isn't mixing apples and oranges or maybe not, but
23 interference is not drainage, okay. And what...when we're
24

1 using the term interference, we're saying that interference
2 is the result of lowering the reservoir pressure which allows
3 the gas to desorb.

4 BILL HARRIS: So, it has a positive effect on the
5 production.

6 MARK SWARTZ: Okay, so it not...we're not...we're
7 saying that well three is going to interfere pretty quickly
8 with EE-24 and EE-25 because it's going to tend to decrease
9 the reservoir pressure in the vicinity of those other wells,
10 which allows more gas to desorb to them, and that over time
11 it may, in effect, interfere with the wells to the south of
12 it over more time. We are not saying that the well in the
13 center of that 60 acre unit is draining gas that would be in
14 the foreseeable future recovered from FF-25 and reducing its
15 ultimate recovery. I mean, if you look at the production...
16 the projection, if you just leave an 80 acre well alone, here
17 is where it is at 10 years. If you...if you add wells and
18 infill drill like we're talking about, here is where they are
19 collectively in 10 years. So, I mean, it's not like there's
20 going to be less gas coming out of FF-25 or EE-25 over time.
21 We're projecting collectively, you know, there's going to be
22 more. That's the drainage issue. I think when Mr. Wilson
23 was talking, I was a little concerned he was thinking that...

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1 saying that interference was a synonym for drainage and
2 really in the---

3 BOB WILSON: No.

4 MARK SWARTZ: ---you know, unless you get out to
5 infinity.

6 BOB WILSON: No, I...I really have a pretty good
7 grasp on what you're talking about. But the very fact that
8 you are saying you're going to establish communication to
9 some degree in that reservoir, what I'm saying is that you're
10 affecting that other well somehow or another by drilling
11 these extra wells in...in these units. Your science
12 indicates that it's going to be beneficial. Your science is
13 pretty short term. I'm saying that I don't think you know
14 over the long haul whether the cumulative is going to go up
15 on all of those wells or whether it's going to come back
16 thicker. I would...I think you've made a pretty good case of
17 the probability that the cumulative would be affected
18 positively as well as the initial.

19 RICHARD LYLE TOOTHMAN, JR.: For a point of
20 clarification, and make sure that I wasn't misleading, you
21 have to look at it from an acreage position, Mr. Wilson, that
22 the cumulative over an acreage position will go up and
23 science tells you that it will. If you look at a particular
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1 well, you can't say the cumulative will go up because it
2 doesn't make sense.

3 BOB WILSON: Exactly.

4 RICHARD LYLE TOOTHMAN, JR.: I mean, there's only a
5 finite amount of gas that's there. I can't put a thousand
6 wells in a 40 acre unit and give you half a bcf per well.
7 It's not physically possible. If you look at a particular
8 acreage position, the more wells that are in that acreage,
9 the higher percentage of the gas in place will be recovered
10 because of all the beneficial effects. So, if you're looking
11 at ultimate recovery per well, the potential is to have
12 slightly less ultimate recovery per well when you tighten up
13 spacing. But ultimately across an entire area, you will have
14 much better gas recovery.

15 BOB WILSON: And that's...that's my point is in
16 this particular example the EE-25 will, by virtue of drilling
17 the number three, would quite possibly have less ultimate
18 recovery then it would if you did not drill well number
19 three.

20 RICHARD LYLE TOOTHMAN, JR.: That's correct.

21 BOB WILSON: In that instance, what is done here is
22 going to affect the revenue in that well depending on the
23 type of correlative rights argument the Board ends up

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1 accepting here.

2 RICHARD LYLE TOOTHMAN, JR.: Two...two things that
3 will take place that you have to look at when you're...when
4 you're truly talking about the economic benefits is that your
5 ultimate recovery may be down. Meaning, that over forty
6 years, you may not recover as much gas. But you are
7 accelerating the recovery of that gas. So the time value of
8 money tells you that because of the acceleration, that it's
9 worth more to us and/or the royalty interest owners because
10 you're getting that money now. That's what you have to
11 weigh. That's what we weigh when we take a look at 60 acres
12 versus 40 acres or any other spacing is in order to go to 40
13 acre spacing, it requires a much larger investment on our
14 part and we have to look at the ultimate recovery as well as
15 accelerated production and what other gas price forecast
16 you've got because it does impact as to the true...if you
17 want look at rate of return or net present value on an
18 investment as to which is best.

19 Forty and 60 acre spacing are fairly close and we
20 presented that again a year and a half ago. From a
21 correlative rights standpoint, that's why we opted for 60
22 acre spacing because we wanted to minimize the amount of
23 roads, power lines and so forth when we did the Middle Ridge
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1 Field Rules, and that's really why we're here today because
2 on today's gas price forecast...I shouldn't say forecast, but
3 at \$5 gas, it would make sense to some extent to come in here
4 and try to do this on 40 acre spacing. It's jut not our
5 belief that that's going to happen over the next 20 years.
6 We'd love for that to happen. But we're not banking on that
7 at this point in time.

8 BILL HARRIS: Just a point of information, when you
9 drill a well what is the expected life of that? I know it
10 probably varies depending on what field you're in. But I've
11 heard you mentioned 20 years and 40 year. I mean, when you
12 drill a well do you expect it to be there for 20---?

13 RICHARD LYLE TOOTHMAN, JR.: Yeah. For a coalbed
14 methane, it is a...it is a low rate, long term type of well.
15 It's something that we're looking at 25 to 30 life very
16 easily.

17 BILL HARRIS: It's typical.

18 RICHARD LYLE TOOTHMAN, JR.: The exception to that
19 is areas that we deal, or areas that we are going to mine,
20 and we interrupt the life of those wells because we undermine
21 these wells and have to plug and abandon them prematurely.
22 It's not on an economic basis. It's because of the mining
23 process.

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1 BILL HARRIS: Yeah. But now with this other
2 drilling, you're...you're not necessarily...in one sense
3 you're saying you're shortening that life, but you're
4 increasing production early in that life.

5 RICHARD LYLE TOOTHMAN, JR.: Well, you know, I
6 think from a hypothetical standpoint, if you look at that
7 entire grid and all you had was EE-25, regardless of what was
8 established from the pool rules, what you do is create a
9 pressure sink where you produce this well and you frac it.
10 It's going to produce gas that's immediately close to that
11 well bore along the...along the frac. It's going to be...the
12 area of influence is going to be very small. With time, that
13 area influence is going to grow and grow and grow, and I
14 mean, I'll exaggerate that you're clear out here. But that
15 may take 250 years to get out to something like that.

16 BILL HARRIS: And this is gas that's migrating to
17 that well?

18 RICHARD LYLE TOOTHMAN, JR.: That's correct. So,
19 when we generally talk about a life of a well and the terms
20 of interference or we're talking about the drainage, we're
21 usually talking in economic terms or the life of what we
22 consider a well bore in 25 to 30 years. If you look at a 70
23 year life, you know, and assume that, for one, the companies
24

1 may not be in business, the casing may not be intact at that
2 point. So, I don't think it's safe to assume that you have
3 that type of life out of a well bore.

4 BILL HARRIS: Thank you.

5 BENNY WAMPLER: So, everybody understands that we
6 have...you know, what we have in place right now is the
7 Oakwood Field Rules, 80 acre spacing. Before when we
8 modified the field rules, we extended the field and change
9 the size of the units for various geologic reasons.

10 In this case, and this won't be the only case, I
11 would predict where people in various field rules can make
12 this same type of showing that increased density wells will
13 up the production and what have you. The question I guess
14 is, is that a modification of that field rule or is that
15 different field rule? And I can understand why it would be
16 proposed as a modification because you've got all of this
17 history out there at 80 acres to come in and try to say
18 "okay, we want it all to be 60 acres" is a whole different
19 nightmare. I understand those points. But just to frame it
20 in the Board's mind where we are with the question before us.
21 That's why I used the term overlaying with these type of
22 units. I think if that modification is approved, that's the
23 most appropriate way to look at it.

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1 MARK SWARTZ: We definitely are not interested in
2 unringing the bell on all of these other units, I mean, this
3 pre-existing units or these pre-existing wells. You know,
4 they need to remain intact. It would be a nightmare trying
5 to unravel that.

6 BENNY WAMPLER: I understand. I was just---.

7 MARK SWARTZ: Right. I just wanted to put the...I
8 like to agree with you---.

9 MARK SWARTZ: ---because we don't...we don't want
10 do that. We don't want go there.

11 BILL HARRIS: I have one other question and then
12 I'll...I know I ask lots of questions.

13 BENNY WAMPLER: Mr. Harris.

14 BILL HARRIS: Could you just refresh us somewhat
15 about the current...how we handle the royalties now? Is it a
16 percentage of acreage or surface acreage in the...in the unit
17 and that's it?

18 MARK SWARTZ: Right, in a frac situation, which is
19 what we're talking about here. We're not talking about gob
20 gas or, you know, longwall panel. You would literally
21 currently would get like in EE-25, if Joe had two acres in
22 that EE-25 drilling unit, you would take two acres divided by
23 80. That would give him his percentage, which would be his
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1 undivided interest, and that would be his percentage of the
2 royalty. That is literally how it is currently done.

3 Now, with regard to...just to confuse this because
4 there is a track record for allocating production on a
5 different basis. You know the gob gas that we've talked
6 about, which is Oakwood II, when a longwall panel is mined in
7 gobs, there we take the panel, we draw---

8 BILL HARRIS: Projection.

9 MARK SWARTZ: ---it over the units---

10 BILL HARRIS: Yeah, it's the projection on---

11 MARK SWARTZ: ---and we do the kind of percentage
12 allocation on a unit by unit basis as opposed to an ownership
13 basis that Les was talking about here. So, there...now,
14 that's a different kind of production. But it's...you know,
15 that's the way it works with Oakwood II. But this
16 is...we're talking about an overlay on the Oakwood I only
17 pertaining to frac wells.

18 BILL HARRIS: Yeah, I just needed that---

19 MARK SWARTZ: It's okay.

20 BILL HARRIS: I'm not sure.

21 BENNY WAMPLER: I guess, you know, the one thing
22 that the Board has an option to do if it wishes to, you know,
23 have time to think about this is carry it over to the next

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1 time. Obviously, that makes it a little more complicated if
2 we have Board members not here...you know, other Board
3 members that weren't here this time and some of us not here,
4 that makes that complicated too.

5 BILL HARRIS: Yeah. It just---

6 BENNY WAMPLER: I'm not suggesting that. I'm just
7 simply reminding you, you have that option if you're
8 uncertain about the request.

9 BILL HARRIS: Well, let me...I know I said I'd be
10 quiet, but one last thing...well, we lost our---

11 RICHARD LYLE TOOTHMAN, JR.: I can get it.

12 BILL HARRIS: I'm sorry.

13 RICHARD LYLE TOOTHMAN, JR.: That's all right.

14 (Rick Toothman fixes the projection.)

15 BILL HARRIS: Mr. Arrington's proposal then is even
16 though we're drilling in...we're drilling number three, that
17 those four 80 acre units basically will receive royalty---?

18 LESLIE K. ARRINGTON: Yes.

19 BILL HARRIS: ---because it overlaps?

20 LESLIE K. ARRINGTON: Yes.

21 BILL HARRIS: Any amount of it that overlaps,
22 you're saying?

23 LESLIE K. ARRINGTON: Yeah.

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1 BILL HARRIS: Because it would probably affect the
2 wells at some point in time, the 24 or 25...well, you know,
3 the EE and F...FF, I guess it is, or whatever, so those four
4 80 acre parts that already overlapped, you're basically
5 saying production from well three, this is your suggestion,
6 and for royalty owners distribute that all over all four of
7 those?

8 LESLIE K. ARRINGTON: That's correct.

9 BILL HARRIS: So, the 60...the 60 acre window here,
10 is that the one in blue---?

11 LESLIE K. ARRINGTON: Yes.

12 MARK SWARTZ: Right.

13 BILL HARRIS: ---is only for the purpose of
14 drilling and location?

15 LESLIE K. ARRINGTON: The only purpose for the
16 rectangle that I have on there, that 60 acre---.

17 MARK SWARTZ: It's a square.

18 LESLIE K. ARRINGTON: Yeah, square, I'm sorry.

19 MARK SWARTZ: Square.

20 RICHARD LYLE TOOTHMAN, JR.: It's a form of a
21 rectangle.

22 LESLIE K. ARRINGTON: Yeah.

23 LESLIE K. ARRINGTON: The only purpose for that is
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1 to be able to allocate their...that proportional part within
2 each unit.

3 MARK SWARTZ: It's to pay royalty. That's the only
4 reason for that.

5 LESLIE K. ARRINGTON: To pay royalties, the only
6 thing there. Then your existing orders and everything else
7 are in place that allocation is allocated to, say, unit FF-
8 24, and all owners within FF-24 are paid the one-eighth of
9 their proportional part there. And as you said, the
10 interference that you're going to eventually create for FF-
11 24, EE-24, EE-25 and FF-25, everybody is getting their
12 proportional part of that, you know, for their unit. Now,
13 when you drill three, you pay everybody equally from the
14 production from that well.

15 RICHARD LYLE TOOTHMAN, JR.: The more I think,
16 especially with Mr. Wilson's comment, I tend to like Les'
17 approach simply from an acreage standpoint, like he said,
18 from a per well, yeah, everything is computer simulated in
19 this area. We do have the exact evidence in other areas as
20 far as the production and Mark has alluded to. But if for
21 some reason, you're accelerating recovery from this well and
22 ultimately could reduce the reserves here, this guy is going
23 to care because he's going to get an accelerated recovery.

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1 If it potentially does take some reserve here, he's getting
2 his money up front and he's benefitting from it if that's a
3 concern of the Board.

4 BILL HARRIS: So, pay me now or pay me later kind
5 of---?

6 RICHARD LYLE TOOTHMAN, JR.: Pay me now or pay me
7 later. Most of us would rather have a \$1,000 in our pocket
8 today than a \$1,000 a \$1 a year.

9 BILL HARRIS: Yeah.

10 RICHARD LYLE TOOTHMAN, JR.: I mean, that's what
11 you're looking at. Ultimately, this well could still benefit
12 over even the long term because of the ultimate draw down of
13 the field. But---.

14 MARK SWARTZ: Well, except---.

15 BILL HARRIS: Well---.

16 MARK SWARTZ: ---if you look at...if you look at
17 FF-25, it may produce less gas over 30 years if we drill
18 three, okay.

19 RICHARD LYLE TOOTHMAN, JR.: That's correct.

20 MARK SWARTZ: On the other hand, if we drill three,
21 the net present value of the production from FF-25 is
22 probably greater.

23 RICHARD LYLE TOOTHMAN, JR.: Oh, absolutely.

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1 MARK SWARTZ: So, I mean---.

2 RICHARD LYLE TOOTHMAN, JR.: I mean, they're
3 benefitting---.

4 MARK SWARTZ: You know, to look at a volume of gas
5 over a 30 year period is not the point of this exercise.

6 RICHARD LYLE TOOTHMAN, JR.: No. I don't disagree
7 with you. The point is, is the ultimate recovery...they're
8 going to benefit in this well, no matter how you allocate it
9 and both are, in my opinion, viable alternatives. This well
10 is going to...well, let's pick one closer. This well will,
11 but it will take a long time. But the closer you are, the
12 quicker you're going to see that benefit and net present
13 value. Mr. Wilson has alluded that, you know, like I said,
14 we're not making additional volumes of gas in here while
15 we're producing. There's a finite amount of gas that's
16 there. We are accelerating the recovery, which means we're
17 getting the time value of it. And because we ultimately can
18 promote more interference and can draw the reservoir pressure
19 lower than we ever could with four wells, unless we look at a
20 100 life. If you make the assumption of a 30 year life, then
21 this additional well is going to improve the recovery of all
22 of these wells across this entire acreage position. On an
23 individual basis it would be slightly less. Just the rough

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1 calculation of doing that on the models as far as what was
2 already presented, you're looking at an average recovery on
3 80 acre spacing of around 550 million cubic foot of gas in 10
4 years time for each one of these wells. If you infill with
5 the additional well here, then the average well will produce
6 500 million cubic foot of gas. So, it's a per well reduction
7 of 50 million. But you're getting all that production up
8 front and across a given area, you're recovering 250
9 additional million cubic feet. That's just in 10 years time.

10 BILL HARRIS: I have a third proposal then, in
11 terms of money, why not just drill the well and whatever
12 proportion people are getting in their individual cells, just
13 increase by that...you know, by whatever percent. In other
14 words, you have a production for the four units, four 80 acre
15 units, because of the well drilled and...in other words, the
16 allocation would be spread over all four of those.

17 MARK SWARTZ: Right.

18 RICHARD LYLE TOOTHMAN, JR.: I think that's exactly
19 what Les is---.

20 BILL HARRIS: Without...without regard though to a
21 percent in those. You're saying the lower corner of three
22 where the green lines are that that proportion be allocated
23 to the cell that FF-25 is in.

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1 RICHARD LYLE TOOTHMAN, JR.: Well, the only
2 difference that you're pointing out is that if well number
3 three is located right there and you did draw a 60 acre
4 spacing around it and that would be allocated to all six or
5 to only two?

6 BILL HARRIS: Well---.

7 RICHARD LYLE TOOTHMAN, JR.: And that's why---.

8 BILL HARRIS: ---my proposal, I guess, is to
9 whichever ones it overlapped that those were the ones that
10 would benefit.

11 BENNY WAMPLER: I think you've got a correlative
12 rights issue on that personally. I don't...you know, if you
13 go to, what is that 0024 and 25, the one above there, I don't
14 think we've had any testimony to show that...any evidence to
15 show that drilling three is not going to communicate with 24
16 and 25, you know, any kind of documentation to that effect.
17 We're looking and looking at that box that we're talking
18 about, but we don't really have any...any testimony---.

19 MARK SWARTZ: Well, we're already there, though. I
20 mean, you know, you need to...you need to keep in mind that
21 field rules are a governmental solution that hopefully apply
22 some fairness to sharing a resource. They're not a perfect
23 solution. I mean DD-24, DD-25, EE-24 and EE-25 are in theory

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1 interfering with each other already. I mean,---.

2 BENNY WAMPLER: I understand that.

3 MARK SWARTZ: ---and the Oakwood Field Rules,
4 everybody knew that, you know, and said this is a reasonable
5 way to deal with correlative rights issues, economic issues,
6 recovery of reservoir issues and it's not...nothing is ever
7 perfect, you know. If you didn't want a well to interfere
8 with a neighboring well, you'd be in the 300 year range, you
9 know, to drain, you know, 640 acres. So, you know, that's
10 already on the table. The question really is, is the current
11 field rule...do the current field rules---?

12 RICHARD LYLE TOOTHMAN, JR.: Which were established
13 back in---

14 MARK SWARTZ: I guess '89...'90.

15 RICHARD LYLE TOOTHMAN, JR.: ---1990, which was
16 prior to a whole lot of drilling. So, you know, the point
17 is, as Mark is saying, I mean, at the time, that was the
18 information that we had, that said that 80's should be
19 adequate. It's not uncommon in any oil and gas situation,
20 coalbed methane or otherwise, and I can allude to other
21 basins that are also going through this same dilemma, that as
22 we drilled and acquired additional information over the last
23 13 years, it suggests that it's probably not adequate. It's

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1 not the best way to recover the resources, that we can do a
2 much more efficient job to protect ourselves and all the
3 mineral interest owners in the area. And now because of the
4 particular mechanism of the 80 acre spacing, you know, we
5 have to come up with some...some technique and be fair in
6 doing that and with the squares that we're given, we can't
7 think of anything better to present.

8 BENNY WAMPLER: Any other questions?

9 (No audible response.)

10 BENNY WAMPLER: Is there a motion?

11 MASON BRENT: Let me just ask one---.

12 BENNY WAMPLER: Mr. Brent.

13 MASON BRENT: ---more question before we make a
14 motion. If you take those four units, the EE-24, 25 and FF-
15 24 and 25, if we go back to what Les said earlier, you
16 contemplate you'll get a fifty percent increase in the number
17 of wells in this area, roughly 40 or 20s, why wouldn't you be
18 able to find a place to put that number three that's in one
19 of the windows?

20 RICHARD LYLE TOOTHMAN, JR.: In Kansas it's easy.
21 In Kansas every single well would be right in the middle of
22 that square and you can see that there's already inequities
23 built. DD-24 is hypothetically draining this area. Is that

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1 a reasonable assumption with the well located where it's at?
2 But this isn't Kansas. Houses, existing roads, rivers,
3 pipeline, mountains all come in. We do the best that we can
4 with what we're given. We try to, you know, stay on strip
5 benches and take advantage of natural relief of topography
6 and well placement. Unfortunately, it is a task sometimes
7 even locating...obviously in locating the first well in this
8 drilling window.

9 MASON BRENT: So, is it a safe assumption...let's
10 say that FF-24, is it a safe assumption to say that in that
11 entire unit...well, let's narrow it down within the window
12 for that entire unit, there's no other place to put a well
13 except where that well is?

14 RICHARD LYLE TOOTHMAN, JR.: I wouldn't say that
15 there's no other place, but it would definitely cost us
16 additional money to get there.

17 MASON BRENT: Anywhere else?

18 RICHARD LYLE TOOTHMAN, JR.: Yes.

19 LESLIE K. ARRINGTON: Yes.

20 RICHARD LYLE TOOTHMAN, JR.: Or it---.

21 LESLIE K. ARRINGTON: I can answer that.

22 RICHARD LYLE TOOTHMAN, JR.: ---it would have been
23 closer to the center of that unit. That is our desire to do

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1 that, to uniformly space them as much as possible. It is not
2 uncommon for us at time to spend as much as a \$100,000 to
3 just get a site. But...you know, by standards of places out
4 west, that's saying site may cost anywhere from \$8 to
5 \$15,000.

6 MASON BRENT: So then your contention is that,
7 given that, that means an additional estimated 20 wells and
8 they would be able to produce zero in this area because
9 there's absolutely no...due to topographical topography
10 problems or whatever, there are no other areas to put any of
11 those 20 wells---?

12 RICHARD LYLE TOOTHMAN, JR.: No. I'm not sure that
13 I understand your question. What I'm saying is that if...if
14 it came up to where were had to put...first of all, the first
15 unit could not fall in without a special order. So,
16 obviously, we avoid that from the beginning because that
17 takes a lot more time and effort on our part. Within the
18 window, we are diligent in trying to find a costly location.
19 I'll say you can do anything for a matter of money. It is
20 fair to say that in some of these areas, if we were forced to
21 put a second well in this unit right here, it will cost us
22 more money than it did to locate FF-24 at the beginning and
23 sometimes substantially more. That would be one of the

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1 reasons why that...and again with the other housing issues
2 and so forth, would be why we would propose this. If we
3 thought we could get away with it and not put any of them in
4 here, we wouldn't have breached the subject today. But of
5 reviewing the area, we believe that there is a good
6 possibility that one or multiple wells in order to find
7 placement and get a well in that area would have to fall into
8 these boundaries. That's the only reason we're here today.

9 MARK SWARTZ: Well, the other reason we're here
10 today, even if we could put wells in the drilling window,
11 which is your question, the current order does not allow us
12 to do that because we don't have a statutory or board basis
13 to do an increase density well in these units. So, we
14 couldn't even do the two wells.

15 MASON BRENT: I understand that. I understand
16 that.

17 RICHARD LYLE TOOTHMAN, JR.: No, that's correct.

18 BENNY WAMPLER: Yeah. You were basically just
19 looking at the fact that if we just simply approve one
20 additional well in each unit, wouldn't that take you to
21 where...where you need to be rather than create a...get into
22 60 acre or some bifurcated system.

23 MASON BRENT: And what do we do now if an exception
24

1 in the window is approved and we put a well outside of the
2 window? How are we compensating somebody in the adjoining
3 unit?

4 BOB WILSON: We haven't had any instances that I'm
5 aware of recently in the Oakwood where we have actually had
6 to deal with that. In other areas where I have the authority
7 to give a spacing exception outside of the window, wherever
8 the well is drilled, it pays that unit even if it's outside
9 of the interior window.

10 BENNY WAMPLER: That's not compensating anybody
11 else.

12 MASON BRENT: That's what I thought.

13 MARK SWARTZ: There are a bunch of wells in the
14 Oakwood Field that are outside the drilling window.

15 MASON BRENT: Under today's rules, if he approved
16 number three in EE-25, nobody would benefit other than the
17 folks in EE-25?

18 BENNY WAMPLER: That's right.

19 MASON BRENT: If he approved it himself.

20 LESLIE K. ARRINGTON: Correct.

21 MARK SWARTZ: Correct.

22 BILL HARRIS: Well, that's not entirely true---.

23 RICHARD LYLE TOOTHMAN, JR.: Well, that's---.

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1 BILL HARRIS: ---because, again, you're going to
2 benefit from this interference effect.

3 MARK SWARTZ: You have the interference benefit,
4 right. Right.

5 RICHARD LYLE TOOTHMAN, JR.: Yeah, they wouldn't be
6 paid anything on that additional production of that well.

7 BILL HARRIS: But, in terms, on paper, the people
8 who are designated to receive additional would only be in EE-
9 25?

10 BENNY WAMPLER: Yeah.

11 BILL HARRIS: Um.

12 BENNY WAMPLER: I'm not going to give you a break
13 until we decide.

14 BILL HARRIS: Yeah. Do we have three decisions in
15 front of us now of whether or not this doable and then how to
16 apply it if it is, two different ways or---?

17 BENNY WAMPLER: You can carry it over to the next
18 meeting where you have to make a decision if you want further
19 study. You can...you have the two scenarios presented before
20 you on how to pay. But like Bob said, the first question
21 really gets to do you...do you approve of the modification of
22 the Oakwood unit, and then if you do, then you go to the
23 structure of how do you do that? Mr. Swartz, if you want to

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1 frame that in any other way as far as the request to the
2 Board, you're welcome to.

3 MARK SWARTZ: Well, I think what...what the
4 chairman has indicated, and the leader of the DGO as well
5 perhaps, is that additional drilling ought to require a trip
6 to the Board to pool the 60 acre units. So, if you're going
7 to modify the Oakwood Rules in this area to allow roughly 20
8 wells additional to be drilled, it seems like the
9 administrative preference is that that modification take the
10 form of pooling that 60 acre unit, which I've already said we
11 don't have the administrative...I mean, we would prefer not
12 to make that trip. But we're not going to say we don't want
13 to drill these wells because you're going to make us come
14 back.

15 LESLIE K. ARRINGTON: But I want the cost of that
16 well if we have to repool that additional---

17 MARK SWARTZ: Well, we'll have an opportunity to do
18 that because people will have an election right at that
19 point. And so from the standpoint of what needs to happen, I
20 guess the first question is, is the Board willing to allow
21 additional wells to be drilled in this area if...and make
22 that condition upon us coming back to pool those smaller
23 overlay units? So, that would be decision one. Then

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1 decision two is on that return trip, what is going to be the
2 ground rules so that we know how to calculate Exhibit B-3
3 interest in unit and so forth, what is the Board's preference
4 with regard to addressing the correlative rights issue? I
5 think we've kind of got the traditional, you can only pay
6 within a drilling unit or we've got the frame oil filter sort
7 of you can pay me now or pay me later. Is there some
8 correlative rights argument to be made that diminished
9 production, albeit overtime, would justify spreading the
10 royalty from well three, for example, over a large area? I
11 think that's where you've been struggling, Mr. Harris. So, I
12 think decision one is we're going to do an overlay with a
13 return trip to the Board; and decision two is, if that
14 happens, how is the Board going to provide for the division
15 of interest within the...the allocation of the production?

16 BENNY WAMPLER: Is there a motion?

17 BILL HARRIS: Well, I make a motion...and I don't
18 know where it's going to go, but I'll move that we...that the
19 Board allow for a modification of the field rules in such
20 manner to allow for the 60 acre drilling units; and the
21 motion also will say that the allocation of royalties will be
22 determined at a later date.

23 But I firmly believe that we...I just feel that we
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1 can increase production at a faster rate in terms of getting
2 the gas, again, at a time value situation so the gas comes
3 out sooner. I think that's what the State would have us do.
4 But at the same time, we're responsible for the correlative
5 rights issue. And I'm not really sure what to do with that.
6 I'm not sure that we should throw out the other because we
7 can't figure out number two.

8 So, my motion is to allow for a modification of the
9 field rules to allow the 60 acre units; and with the
10 correlative rights issue to be determined at another meeting.
11 And I'm not sure if that's the best way to do that.

12 MASON BRENT: What if you...Mr. Harris, if you...if
13 you propose that we modify the Oakwood Rules in this meeting
14 and to allow for additional wells in the existing units---?

15 BILL HARRIS: Uh-huh. Yeah.

16 MASON BRENT: ---and maybe stay away from the 60
17 acre---?

18 BILL HARRIS: Yes, yes. Yeah.

19 MASON BRENT: ---and that the Board be given a
20 little more time to study the correlative issue and the Board
21 will decide how we going to---?

22 BILL HARRIS: Yeah. I would modify my motion for
23 that, yes.

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1 BENNY WAMPLER: So your motion then...let me just
2 ask for a clarification, your motion then would be to modify
3 Oakwood I to allow an additional well in each unit?

4 BILL HARRIS: Essentially that's what it would...
5 that's what it would entail.

6 MASON BRENT: Within or without the window outside.

7 BILL HARRIS: Yeah.

8 MASON BRENT: I'm fairly...I'm fairly comfortable
9 with the size that you're presenting today. I'm just not
10 sure I'm not ready to...I don't think I've had enough time to
11 really think through correlative rights, how to structure the
12 compensation to the interested parties.

13 BENNY WAMPLER: Do you want to restate your motion
14 then just for clarity and then we'll see if---?

15 BILL HARRIS: Yes. I think the motion now is that
16 the Board allow for a modification of field rules in the
17 Oakwood unit to allow for an additional well in...I don't
18 know if I want to say each...is there another name we have
19 for these wells besides just additional wells?

20 BENNY WAMPLER: He has got them identified as...you
21 can just say as identified in the petition.

22 BILL HARRIS: As identified in the petition that we
23 have...that we have before us to allow for that. So, the

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1 motion is really to allow for a modification of the field
2 rules to allow those additional wells.

3 BENNY WAMPLER: Is there a second?

4 MASON BRENT: I second.

5 BENNY WAMPLER: Any further discussion?

6 (No audible response.)

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

9 (All members signify by saying yes.)

10 BENNY WAMPLER: Opposed, say no.

11 (No audible response.)

12 BENNY WAMPLER: You have approval.

13 BOB WILSON: Mr. Chairman,---.

14 BENNY WAMPLER: Mr. Wilson.

15 BOB WILSON: ---before you break, there was a
16 second aspect of this petition as well to waive the
17 requirements of the statute that says that no additional
18 wells could be permitted in the unit after an application has
19 been made. I'm not sure it even is going to apply here
20 because in the past we have pretty much restricted that
21 restriction to the area that was being applied for
22 modification, not the entire field. I don't know if you have
23 any other permits---.

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1 LESLIE K. ARRINGTON: I don't have any---.

2 BOB WILSON: ---to submit in there or not.

3 LESLIE K. ARRINGTON: No, I wanted to get this
4 approved before we moved forward.

5 MARK SWARTZ: Well, you've got those eastern units,
6 though, that you don't have wells in yet.

7 LESLIE K. ARRINGTON: I believe those are
8 permitted. I'm not sure. We need to talk about that.

9 MARK SWARTZ: Okay, well the---.

10 BOB WILSON: If they are to be permitted, then the
11 Board needs to address that way before---.

12 MARK SWARTZ: Well, I was going to---.

13 BOB WILSON: The statute only allows for the Board
14 to make that exception.

15 MARK SWARTZ: I was going to ask when you were
16 done, that you waive...there is a statute that says that
17 unless you do something affirmative, the filing of a
18 modification request operates as a stay of all permitting,
19 arguably in the entire Oakwood Field, I mean, the way the
20 statute is worded. So, I would ask that you entertain the
21 request that we made when we filed our petition, that you
22 provide that sub-part capital letter F, I guess it's probably
23 361.20...361.15 not apply, and that there be no stay of any
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1 permits in the Oakwood Field predicated on the pendency of
2 this motion.

3 BOB WILSON: And I would have no objection to that.

4 BILL HARRIS: I don't think that was the intent of
5 the motion. I think it was to allow---

6 MARK SWARTZ: No, unfortunately the law gets in the
7 way.

8 BILL HARRIS: Yes.

9 MARK SWARTZ: I'm not sure anybody had that on
10 their screen except perhaps Mr. Wilson and us. But---

11 BENNY WAMPLER: I think we will have to take a vote
12 on that. I think we're going to have to specifically
13 authorize a waiver of that---

14 MARK SWARTZ: Right.

15 BENNY WAMPLER: ---provision. So, we'll need a
16 motion to that effect. You want to just clarify that it
17 wasn't the intent your motion.

18 BILL HARRIS: Yes. Now, how do I do that
19 officially? I'm just going to propose that my motion...well,
20 I'm not sure about the wording. Can we get a reference---?

21 BOB WILSON: Excuse me.

22 BILL HARRIS: Yeah.

23 BOB WILSON: May I assist you with that? If you
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1 look at---.

2 BILL HARRIS: Yeah, yeah. I think if I had the---.

3 BOB WILSON: ---the first page of your synopses
4 there, you'll see the quotation of section 45.1-361.20(f) is
5 the bottom portion of that. If you merely ask for an
6 exception to the provisions of that statute, I think we'll be
7 covered.

8 BILL HARRIS: Yeah. Well, I move then that we...
9 that we grant exception to that statute of 45.1-361.20(f)
10 that we...I can't think---

11 BENNY WAMPLER: I think you got it.

12 BILL HARRIS: Yeah.

13 BENNY WAMPLER: You're okay with that.

14 DONALD RATLIFF: I'll second it.

15 BENNY WAMPLER: That's an exception. And second.
16 Any further discussion?

17 (No audible response.)

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

20 (All members signify by saying yes.)

21 BENNY WAMPLER: Opposed, say no.

22 (No audible response.)

23 BENNY WAMPLER: You have approval.

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1 BOB WILSON: One other thing, I would suggest that
2 we do not issue a separate order for today's action pending
3 the completion of the correlative rights issue, if that's
4 acceptable to the Board.

5 MASON BRENT: Say that again. Repeat that.

6 BOB WILSON: I was suggesting that we not issue a
7 separate order based on the decision that was made today to
8 allow higher density drilling in the area pending the
9 completion of the correlative rights issues, if that's
10 acceptable.

11 BENNY WAMPLER: I think that was the intent that
12 we're carrying this until we...until we resolve that. We're
13 just making the decision of those that had heard evidence
14 today.

15 BOB WILSON: I'm finished.

16 BENNY WAMPLER: Are you sure?

17 BENNY WAMPLER: We'll take a ten minute break.

18 (Break.)

19 BENNY WAMPLER: ...just an opportunity...rather
20 than make them wait until the end of day, and have an
21 opportunity to say something to us. They have a spokesperson
22 here. I'll just let you go over it and take your time to get
23 set up and state your name for the record.

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1 DONALD RATLIFF: This pertains to which docket
2 item?

3 BENNY WAMPLER: None...none of the docket items.

4 DONALD RATLIFF: None.

5 BENNY WAMPLER: He has just requested to address
6 the Board.

7 DONALD RATLIFF: Okay.

8 KENNETH OSBORNE: To start with, my name's Kenneth
9 Osborne, Roanoke, Virginia, and I'm one of the Linkous Horn
10 heirs. I'd like to thank you, Mr. Chairman, and the Board
11 members for letting me present this stuff to you today.

12 BENNY WAMPLER: Sure.

13 KENNETH OSBORNE: I'm the designated spokesman for
14 the Linkous Horn heirs. And to sum it up, if I don't
15 understand it, then I certainly can't express it to them,
16 what's going on.

17 The particulars right now is the escrow accounts.
18 I made some copies here for the Board. This...when I request
19 from Mr. Wilson a copy of the escrow account, this is what I
20 receive. I made some copies for you all to pass around to
21 take a look at.

22 (Kenneth Osborne distributes exhibits to the
23 Board.)

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1 My understanding, we have several wells and, for
2 instance...would you like one of these?

3 BOB WILSON: Please. Thank you.

4 KENNETH OSBORNE: For instance, if you have a
5 well---?

6 BILL HARRIS: Do you have a extra one?

7 BOB WILSON: Here, Mr. Harris. I can get one.

8 BILL HARRIS: I can give it back to you. I'll just
9 use this one and give it back to him.

10 KENNETH OSBORNE: Okay. If you have...we have a
11 well S-35 and...I'm assuming it's the unit. When there's a
12 S-35-a well and an S-35-b well, Mr. Wilson told me the way
13 they track these escrows is by the number itself. So, if you
14 have S-35-a and S-35-b, the escrow account reflects that.
15 Okay, what...what my problem is understanding...is on the
16 accounts, if you've got one account representing two or three
17 wells, I mean, it's hard to keep track of that. My concerns
18 are...this is a copy of the well productions. I apologize
19 for not having a copy for everybody.

20 (Kenneth Osborne distributes exhibits to the
21 Board.)

22 KENNETH OSBORNE: This is a copy of the well
23 production that concerned us or concerned the Linkous Horn

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1 heirs. Some of my questions is, I'm not...you have...well,
2 I'll just...I'll just start with this well right here, which
3 is S-35-a. This is supposed to be a list from the time this
4 well went into production up until 8/2002. A total net
5 production, if I'm understanding this right, this figure here
6 is 125,369, I'm assuming cubic feet, is that correct?

7 BOB WILSON: It should be a 1000 cubic feet. The
8 production numbers are given in 1000s of cubic feet.

9 KENNETH OSBORNE: In 1000s of cubic feet, okay. If
10 you've got a well, the S-35-a, and from the time it went into
11 production 10/99 to the end of this report which is 8/2002
12 and you have a production 125,369 cubic feet. You have a
13 well S-35-b, went into production 10/99 and this goes to 8 of
14 2002 and you've got 148,225 cubic feet. If you combine those
15 two together as of what I gave you all on the escrow
16 accounts, this is the current ones I have, which runs from
17 December the 31st, 2002, the balance on that escrow account
18 is \$74,282.89.

19 To start with, I have a copy...this is supposed to
20 be when these accounts...escrow accounts was...the first time
21 they were opened, the first deposits that were made into
22 these accounts.

23 (Kenneth Osborne distributes exhibits to the
24

1 Board.)

2 KENNETH OSBORNE: If you'll look at the date...if
3 you'll go through there and you'll find the well number S-35,
4 which S-35 will represent S-35-a and S-35-b. It should be
5 this page on the very first that I give you. S-35-a, the
6 production started at 10/99. The escrow account wasn't
7 opened until January 1 of 2000. So, where...before the
8 escrow account, where is the funds from the production of
9 that well? The same with S-35-b, the well production started
10 at 10/99 but the escrow account wasn't opened until January 1
11 of 2000. Where is the funds for that?

12 So, the first problem is if you've got two wells
13 and there's only one tract number to go by, that gets very
14 confusing. But, again, it doesn't explain where the funds
15 are from where the well is already pumping before the escrow
16 accounts were started.

17 BENNY WAMPLER: Mr. Wilson, do you want to address
18 that part of the question?

19 BOB WILSON: I think I can address the delay. The
20 reports that you have there show production as of the month
21 that it was produced. Those reports don't come into us until
22 a minimum of 45 days later. In other words, there's always a
23 lag time between the actual production month and reporting

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1 month because there's the process of reading the meters and
2 having all the accounting done and this sort of thing.
3 There's always that delay period in that.

4 Plus the escrow account, the escrow agent, is not
5 allowed to accept any funds in that account until they have
6 received a signed and executed supplemental order, which
7 sometimes by the time it gets drafted and circulated and
8 recorded at the Courthouse, that actually can be a bit of
9 delay in getting money into the account. A, what, two or
10 three month delay that you see in there, I would not consider
11 it significant. It's often, as I said, almost two months
12 before that production is even reported. And I'm not sure,
13 but I think you would find that the companies that do the pay
14 for...in this case Consol or PGP, run a considerable amount
15 behind, probably two months behind on cutting checks for a
16 particular production month. So, what you see there that was
17 produced in October probably was not accounted for and
18 reported until the end of December at least. So, there's
19 always that lag time on production. And, again, there is a
20 possibility of a lag time being able to get it into the
21 account because if a check shows up at the escrow agent and
22 we have not provided them with a supplemental order opening
23 that account, they are instructed to return that check to the

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1 operator because they have no accounting for you.

2 KENNETH OSBORNE: Okay, but then after the escrow
3 account gets established, shouldn't that money be deposited
4 in that account?

5 BOB WILSON: Yes, sir.

6 KENNETH OSBORNE: Okay. I guess my point is
7 production started 10 of '99, for the month of 10/99, it says
8 zero. For the month of 11/99, it's 2780 cubic feet. For
9 12/99 is 1819 cubic feet. You know, what is the percent that
10 that's paid?

11 BOB WILSON: Okay, that...what you're seeing there
12 is the total production from that well. Under normal royalty
13 terms and under the terms of the Board pooling orders, 12 and
14 1/2% of that production would be attributable to royalty
15 owners within that unit. The amount that goes to the escrow
16 account would be 12 1/2% times the total amount of the unit
17 was escrowed. The entire unit probably was not subject to
18 escrow. I don't know in these cases. I'd have to go back
19 and look, obviously. But if...if 50% of the mineral property
20 in a unit, for instance, is subject to escrow, then 12 1/2%
21 of the production times 50% would go into the escrow account.

22 KENNETH OSBORNE: Well, all these wells, from the
23 time they went into production until the time the escrow

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1 accounts were established, some of them there's a three
2 months lapse. There's one of them that's a six months lapse.
3 I mean, from these figures I...you know, I consider that a
4 lot of money. But, if...the two that I just give you the
5 figure on, the 125,369 and 148,225, that's from S-35-a and S-
6 35-b, as of December the balance on that account is
7 74,282.89. When you get a well here that has the production
8 figures of...S-37. You've got well S-37, S-37-A and S-37-B.
9 S-37 produced a 158,543 cubic feet; S-37-a produced...it
10 only pumped for one month for some reason, but it produced
11 5,310 cubic feet; S-37-b produced a 120,889 cubic feet, which
12 gives you a total, if my math is correct, 284,742 cubic feet.
13 But as of December, 2002 that escrow account has
14 89...\$899.69. So, I guess what I'm asking is how...how can
15 there be such a huge distance of those two amounts in the
16 escrow accounts and the pumpage from the well?

17 BOB WILSON: I...again, without having the Board
18 orders in front of me to look to see what percentages were
19 actually going into escrow in each of those units, I could
20 not really even address your question. But there is a
21 probability that the very small amount that was going in has
22 to do with the fact that only a small portion of that unit
23 was subject to escrow. Again, I can't say that. But

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1 that's...but that would be my first thing to consider
2 probable is that there was just a very tiny percentage of the
3 unit that was subject to escrow. So, the entire production
4 is not going into escrow. The royalties of the entire
5 production are not going to escrow, only the portion of that
6 unit that was in conflict would be going into escrow. And
7 these are records that I can pull out and look at for you.
8 But I can't...I can't tell you specifically today.

9 KENNETH OSBORNE: Okay. I mean, for the average
10 Joe like me, if...you know, if I'm trying to track three
11 wells and by law they are supposed to have an individual
12 escrow account if it's force pooling, and then I've got a
13 figure just from one well, and I go back to the well
14 production and I look at the cubic feet that's being produced
15 and then those figures, and, you know, I know this is hard
16 times right now for the economy. But, I mean, you know,
17 what...I can't understand the interest rate on some of these.
18 But, regardless, like me, the average Joe, if I'm trying to
19 figure these out it's almost impossible. I mean, what
20 else...you know, how else can you...how else can the average
21 person track these?

22 Then also on two of the wells for the last four
23 months, the well was producing but there was no deposits in
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1 the escrow accounts. And I've got...I made a copy of those
2 for the Board, also.

3 (Kenneth Osborne distributes exhibits to the
4 Board.)

5 BENNY WAMPLER: That may be the lag time that Mr.
6 Wilson was addressing. One thing, obviously, is you need to
7 understand is when the Board establishes an escrow account,
8 first we have an escrow agent, and you're aware of that. We
9 have the bank set up as the escrow agent. The Board has had
10 all those funds audited by an independent certified auditor.
11 That account has been reconciled as recently as last year.
12 So, you know, we have confid...you know, confidence that the
13 process is working, okay, the money is going into the
14 account.

15 There's this business of those folks who are force
16 pooled are the only ones that the money is going into that
17 account like Mr. Wilson is explaining. There's...there's
18 royalty owners that are getting paid directly and that money
19 is not going into that account. You would have to know that
20 percentage. You'd have to know what percentage was going
21 into escrow account per well and then apply that. That
22 information is on the Board orders. You could go back to the
23 Board order and get that percentage and apply that to the

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1 amount that's there and determine the amount in your account.

2 KENNETH OSBORNE: So, what you're saying is take
3 the Board order for what part represents us, what figure that
4 is---?

5 BENNY WAMPLER: That percentage in that tract.

6 KENNETH OSBORNE: ---that percentage, and you take
7 that percentage from the overall figure and that's...that's
8 what gives the Linkous Horn heirs their percentage?

9 BOB WILSON: Okay, now the number that you will
10 have in the escrow account will include all entities who were
11 subject to escrow. In other words, it would include the
12 Linkous Horn heirs, it would include anybody else in that
13 unit who was also pooled and subject to escrow at that
14 particular time. So, it would not be just the Linkous Horn
15 heirs unless they were the only people who were pooled under
16 that order.

17 So, in other words, the number that we're able to
18 give you from the escrow agent is the amount that has been
19 escrowed for that unit. You're talking about having to deal
20 with multiple wells. What the Board does is pool the unit
21 itself, that square. It doesn't...it doesn't have anything
22 to do with the number. It's basically saying that all
23 revenues that come from that unit are handled in this way

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1 according to the way the order dictates. The number that we
2 give you reflects the total amount that has been put in that
3 escrow account for all parties who were pooled.

4 KENNETH OSBORNE: Right.

5 BOB WILSON: That might include the Linkous Horn
6 heirs. It might include Danny McClanahan. It might include
7 two or three other people. So, to break it out, you would
8 have to go back to that Board order and see how much of a
9 percentage belongs to the Linkous Horn claim and then
10 calculate that according to the total number of tracts that
11 were subject to escrow.

12 KENNETH OSBORNE: Okay, that clarified that for me.
13 That I understand. So, with your other explanation then
14 about...that would explain...I mean, would this be considered
15 standard procedure of well T-37. Let me be sure there's not
16 a connector with that. Well T-37---.

17 (Kenneth Osborne reviews his notes.)

18 KENNETH OSBORNE: If you'll look on your...this is
19 the very first escrow deposit for this well. The escrow
20 account was established 11/3/99, but the well started pumping
21 12 of '98. So we're looking at a year there of production
22 and the beginning balance on this was \$5.96. We're looking
23 at figures, 12/98, 3,936 cubic feet; 1/99, 7,556 cubic feet;

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1 the next month, 6,975; the next month, 6,316. I mean, we're
2 looking at 5 and 6,000 cubic feet and the beginning balance
3 is \$5.96.

4 BOB WILSON: Again, I can't address the specifics
5 of that because I don't have the information with me, but
6 that beginning balance actually may have been a royalty
7 payment. Sometimes if there's a royalty payment due that's
8 in conflict, that money goes in...that's actually the first
9 deposit that goes into the account. Now, as to that
10 particular delay, again, I can't address that without looking
11 at the order. But if the well had been producing for that
12 period of time and no deposits been made during the year, if
13 the supplemental order had been submitted to the escrow
14 agent, then there probably should have been deposits made.
15 But, I can't...again, without having the information at hand,
16 I can't really tell you that.

17 KENNETH OSBORNE: I guess I'm asking the Board
18 then, what would be my next step to find out---?

19 BILL HARRIS: Let me see if I can...I'm looking at
20 T-37 and you had highlighted some in yellow.

21 KENNETH OSBORNE: Yes, sir.

22 BILL HARRIS: And what you're saying basically is
23 that that well was producing, but the escrow account doesn't

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1 start to show a balance until later?

2 KENNETH OSBORNE: Correct.

3 BILL HARRIS: And that the balance... it doesn't
4 appear to be in keeping with the bal...production.

5 KENNETH OSBORNE: Unless I just, you know, do not
6 know what I'm looking at. That's the point I'm trying to
7 make because this is the...this is the escrow account from
8 this well, 11/3...30 of '99.

9 BILL HARRIS: Yeah.

10 KENNETH OSBORNE: And here's the opening balance,
11 \$5.96.

12 BILL HARRIS: Yeah, you're saying that
13 production---?

14 KENNETH OSBORNE: Correct.

15 SHARON PIGEON: Not all the funds are---.

16 JIM KISER: That's probably a lease/rental and not
17 a royalty payment is what he's saying.

18 BILL HARRIS: But that's even worse, though, isn't
19 it?

20 JIM KISER: No, it would be better.

21 BILL HARRIS: I'm missing something there then.

22 JIM KISER: They pay a dollar an acre for delay
23 rentals on that, so that would make sense.

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1 SHARON PIGEON: Not everyone subject to a pooling
2 order requires escrow. Escrow only applies to those who are
3 in conflict as far as ownership, or are unlocateable. Those
4 are the people who are involved in the escrow fund, not
5 everyone that's included in that pooling order. Some of
6 those people are getting paid. They're not going through
7 escrow.

8 KENNETH OSBORNE: The Linkous Horn are not.
9 Everything that involve us...involves us is in a force
10 pooling order. But I'm just...I mean---.

11 BENNY WAMPLER: That period of time, you know, it
12 should roll forward at some point without Bob check...you
13 know, we can ask Mr. Wilson to check into that. But your
14 numbers should roll forward. Now, whether or not...why it
15 took a year...it may have been the Board order itself that
16 the company was internally escrowing and then moved it over
17 because that's what we ordered to occur. Once we issue a
18 Board order, we will order the company to move that to escrow
19 and when we send that order to the bank, they open the
20 account and the company moves that money into that. So you
21 should be able to see that roll up somewhere. If you didn't,
22 then you'd have...you'd have a real issue because you'd have
23 missing funds here. Somebody would either have to go back

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1 and check the records---.

2 KENNETH OSBORNE: If you go---.

3 BENNY WAMPLER: ---and pay you.

4 KENNETH OSBORNE: I didn't mean to interrupt you.

5 BENNY WAMPLER: That's okay.

6 KENNETH OSBORNE: If you go to the December escrow
7 accounts---.

8 BILL HARRIS: You just brought one over here.

9 KENNETH OSBORNE: The well that we're talking about
10 here.

11 BENNY WAMPLER: Okay, I've got it right here, 3858.
12 54 ending balance.

13 KENNETH OSBORNE: Yes. For the entire production
14 on that, that's showing a balance as of December the 31st,
15 2002 of \$3,858.54. But again, I'm...I just...I don't
16 understand...the paperwork that I went through, I don't
17 understand where these months of production started out with
18 the escrow account opened with \$5.96. I mean...and when the
19 Linkous Horn heirs look at me to explain this to them, you
20 know, if I don't understand it, then I can't explain it to
21 them.

22 BENNY WAMPLER: That's right.

23 KENNETH OSBORNE: Mr. Wilson gets flooded with
24

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1 phone calls.

2 BOB WILSON: Yeah.

3 BILL HARRIS: We really would have to look at each
4 individual well, I guess, and see what percent each order for
5 each well and see what percent was actually escrowed because
6 if the...if the...if the claimants only amount to 3%, the
7 conflicting claimants, you know, we own the gas and there's
8 several people...if that's 3% of the total 12% royalty, then
9 you're going to see small figure of that particular plot of
10 land. Whereas you go to the next well and you all may have
11 20% of the land there and feel that you're entitled to 20% of
12 that 12%. If there are other people there, that escrow
13 amount is going to be higher...can be higher. So, the escrow
14 amount is probably not the best way to measure. I mean, I
15 know you look at production and you look at escrow. But
16 there's another number in there. That number is how
17 many...what percent of the---

18 DONALD RATLIFF: Force pooled.

19 BILL HARRIS: Yeah, how many people were force...
20 not how many people, what percent were force pooled. If it's
21 50%, then you're going to have a fairly large balance there.
22 But if it's 3%, you're going to have a much smaller amount.
23 So, it just depends on each well.

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1 BENNY WAMPLER: It goes to---.

2 BILL HARRIS: It just goes to each well and each
3 order.

4 BENNY WAMPLER: The percentage escrowed.

5 BILL HARRIS: Yeah, it goes to the percentage
6 escrowed.

7 BENNY WAMPLER: That's the key.

8 BILL HARRIS: That's what's going to affect the
9 dollar amount. So, it's kind of hard to look at production
10 of the well and say...now, I do...I do agree with you this
11 money ought to be somewhere. It should be accountable for.

12 KENNETH OSBORNE: Yes, sir.

13 BILL HARRIS: We're saying that that...that should
14 be there. But in terms of...you know, you look at a well
15 production of ever how many hundred or thousands of cubic
16 feet and you look one amount and then look at another well
17 and see maybe even the same amount and a different amount,
18 that's dependent upon the percent of the folks who were
19 escrowed.

20 KENNETH OSBORNE: Right.

21 BILL HARRIS: And so that's what is going to
22 determine the money that's there.

23 KENNETH OSBORNE: Right.

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1 BOB WILSON: Mr. Chairman.

2 BENNY WAMPLER: Mr. Wilson.

3 BOB WILSON: I might suggest, Mr. Osborne, that
4 maybe it would be beneficial for you and I to sit down in the
5 office one day with these orders and go through them and see
6 if we can clear up your concerns one way or the other, either
7 by taking some action, if necessary, on our part or
8 explaining these orders which are extremely complex. You and
9 I have been dealing together for quite some time. We haven't
10 come to blows yet. So, I think we can probably sit down and
11 do that. That might be the best solution for us to sit down
12 with all the information and go through it first. Then if
13 you have further issues with the Board, then we could come in
14 with that information and have it here for the Board's
15 benefit as well.

16 KENNETH OSBORNE: Okay. I mean, that's...I felt
17 this...you know, I felt this was worthy to bring up in front
18 of the Board. Just like, I mean, I know it's something
19 totally different. But what you all discussed earlier, when
20 you're talking about doing an overlay on fields, you're
21 talking about...you've already got a force pooling. So, then
22 that...that just turns to, you know, chaos. I mean--.

23 BILL HARRIS: Complicates it even more.

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1 KENNETH OSBORNE: It does. It's hard enough to
2 understand. But then this makes it harder.

3 BENNY WAMPLER: Right.

4 KENNETH OSBORNE: And then also with that
5 particular well there, once again, I mean here's...this cut
6 off and I've got a request in to the Board for the
7 information that you have at hand now. I think she told me
8 it would be about ten days. But this particular...the
9 readings from the pump was cut off at 9/2002. I've got, of
10 course, the escrow account figures on that to December. They
11 chose from there...you know, these wells produced. But
12 there's no positive account for those two months, three
13 months and one of them there was four months.

14 BENNY WAMPLER: I think Mr. Wilson would have to
15 clear that up.

16 BOB WILSON: Yeah, a gap in the deposits when there
17 was ongoing production is something that's worthy of concern
18 and is something that we need to look at.

19 KENNETH OSBORNE: Okay. And also there's one...I
20 mean, it would take me a few minutes to find it. But
21 it's...like you have say thirty listings of this production
22 and then half the way through for two months or three months,
23 this well goes from producing 5,623 cubic feet per month to
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1 producing 400 cubic feet. I mean, what would...what would
2 cause...what would cause a break in that...what would cause a
3 gap of that size?

4 BOB WILSON: Do you mean the change in the rate of
5 production?

6 KENNETH OSBORNE: Yes, sir.

7 BOB WILSON: Various operational things can affect
8 the production. Water problems in these coalbed wells cause
9 tremendous...can cause tremendous changes in the production.
10 Bringing other wells online nearby. If you're in the area
11 of the active mining where they're actually degasing a mine,
12 Mechanical problems, there are really a myriad of things that
13 can cause that production to fluctuate, things that we don't
14 get involved in. These are mostly operational
15 considerations. We really have no way of getting involved in
16 that other than to make sure they are being done in a proper,
17 lawful and environmental correct manner.

18 KENNETH OSBORNE: Okay, unless I interpreted the
19 law wrong, and if so, I apologize for it now, but I'll take
20 that up with you when I meet with you, but I thought the law
21 stated that any change within the well that has to do with
22 any individual, any change, they are suppose to be notified.

23 I think it's like 45 days from the end of that month where
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1 the change occurred.

2 BOB WILSON: I'm not sure exactly what you're
3 getting to there. The only thing that we require subsequent
4 notification on is if a well permit is modified, then
5 everybody who is effected by whatever that modification
6 entails is required to be notified the second time. There
7 are requirements that the operators notify the Division of
8 Gas and Oil of various events and occurrences in operations
9 in the way of incident reports or supplemental changes to the
10 permit package and this sort of thing.

11 KENNETH OSBORNE: Okay, so that's...that's the 45
12 day...from the end of the month 45 day rule, they have to
13 notify you. That's what you're talking about right?

14 BOB WILSON: No, the 45 days...the only 45 days
15 that comes to my mind immediately is the requirement for
16 production reporting. That's suppose to be 45 days after the
17 last day of the month they're reporting for. There are seven
18 day requirements for supplemental reporting. I'm not sure...
19 again, this is something we might have to look into the
20 statute and see exactly which one you're talking about.

21 KENNETH OSBORNE: Okay. Okay, I've got a list of
22 which to cover on that, that is my concern.

23 BOB WILSON: Okay.

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1 KENNETH OSBORNE: The only other thing, again,
2 would be back with this...the one particular well we'd
3 already covered. This was a A & B well. If you'll bear with
4 me just a second.

5 (Kenneth Osborne reviews his notes.)

6 KENNETH OSBORNE: The S-35-a I'm...I'm...I don't
7 understand, and I guess what I would like is an explanation,
8 this well started production 11/2001. It appears that it
9 only pumped for one month. From that time on, it hasn't
10 produced anything. But that one production produced 5,310
11 cubic feet. Now, is that a...is that a common practice for a
12 well not to...I mean, I remember one Board hearing, we had
13 the subjects brought up that a well had been already drilled
14 and set up, but it wasn't producing. I think the term was,
15 you know, if you've got set up, then it should be producing
16 or why is not. That's mine...that's what my
17 question...why...you know, why is the well not producing?

18 BENNY WAMPLER: S-35-a.

19 BOB WILSON: S-37-a, I believe.

20 BILL HARRIS: I think you meant 37-A.

21 KENNETH OSBORNE: Yes. I apolo...S-37-a.

22 BENNY WAMPLER: Okay.

23 BOB WILSON: For my part, I...again, I have no
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1 explanation as to why this happens this way. The company is
2 required to report production even if it's zero. That's
3 basically the only requirement that we have. We can't
4 require them to produce a well. We can require them to plug
5 a well. But we can't---

6 KENNETH OSBORNE: Right.

7 BOB WILSON: ---require them to produce it. And so
8 long as they are reporting properly, which they appear to be
9 doing here, I...I'm not sure. I could probably find out from
10 a practical standpoint what the situation is on this. But I
11 couldn't tell you without doing some searching.

12 KENNETH OSBORNE: Well, what raised my concern
13 about this particular well is this is the one where, like I
14 said, S-37 was 158,543, S-37-a was 5,310, that's what we're
15 talking about now. It just pumped one month and it stopped.
16 S-37-b is a 120,889 for the total of 284,742. But it only
17 has a balance as of December of \$899. So, I mean, that's why
18 my...my concern about this...you know, why this particular
19 well produced one month and stopped and then such a, you
20 know, a large volume of the...such a large volume of the gas
21 produced out. I mean, it...you know, I have to...I have to
22 look out for my kin people because they designated me to take
23 care of all of this stuff. So, I mean, if you've got S-37,

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1 S-37-a and S-37-b and they're all together here, and two of
2 them is producing great and one just produces one time...one
3 month and then stops. You know, that raises concerns with
4 me. I mean, you know, why is this not producing?

5 BOB WILSON: The reason for drilling multiple wells
6 in any single unit, of course, is to accelerate the
7 degasification of those coals in preparation for mining.
8 Again, I don't know, but there's possibility that they have
9 discovered that the two other wells were removing that gas at
10 a sufficient rate that they didn't need to operate this one
11 at this particular time. I really don't know. But again,
12 it's not something that we control. It's whether or not---

13 KENNETH OSBORNE: Yeah. But with that, that kind
14 of raises the question about what they presented earlier
15 about taking some more wells to increase the production.

16 BENNY WAMPLER: Well, until he...you know, until
17 he...I mean, in this case, it's not something that we track
18 of why they do or don't produce. The production that they do
19 produce is required to be reported, and he would have that
20 and certainly can investigate that. He can inquire on your
21 behalf as to what happened here and give you that information
22 and see, you know, just so that you have that information.
23 But if you will take the time to get with Mr. Wilson and sit
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--

1 down...because you do have to take the order and you have to
2 look at that and follow it all the way through. You can't
3 just take the percentage and apply it to the production.

4 KENNETH OSBORNE: Right. Yes, I understand that.

5 BENNY WAMPLER: That's the confusing part about it.

6 And you do have to do it order by order, well by well in
7 order to do that.

8 KENNETH OSBORNE: Right. The main reason this
9 morning was to bring this to your attention, you know. The
10 way the accounts are set up and, you know, what my concerns
11 are...by all means, I will take it up with Mr. Wilson. I do
12 know the percentages of each one. I mean...but my concern
13 today was to present this about the escrow accounts. The
14 percentages I will take up with you. There's a great concern
15 there where there's such a huge difference in that.

16 BOB WILSON: And we'll attempt to answer any and
17 all of your questions to the extent we can.

18 KENNETH OSBORNE: Okay. I appreciate you all
19 taking the time to let me bring this in front of you.

20 BENNY WAMPLER: Thank you.

21 BILL HARRIS: Thank you. Is there any way...I'm
22 sort of concerned about, again, the production figures. Is
23 there some way Mr. Wilson can report to the Board about where

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1 the money is for that period or what happened?

2 BOB WILSON: Certainly.

3 BILL HARRIS: Because I'm sure this isn't the only
4 situation that we'll have where...you know, I don't know if
5 this is an accounting type of situation and the money is
6 eventually put in. I know we changed escrow agents. But
7 there should have...you know, there's carryover. That's sort
8 of puzzling, I guess, when you have production and then the
9 escrow starts later. But then you don't go back and put in
10 for that previous---

11 BOB WILSON: For your...the Board's information, we
12 fairly regularly get calls asking for information of this
13 sort because people either feel that they is not...they are
14 not sufficient funds in the account or because funds were
15 going in and have subsequently stopped. We do routinely
16 check on all of these and get back to these folks. Yes, I
17 can...I can certainly bring that to the Board as well.

18 BENNY WAMPLER: I think if you will just report
19 back to the Board after you get with Mr. Osborne on the
20 resolution of his questions that he has asked would be good
21 to do.

22 BOB WILSON: I'll be happy to do that.

23 KENNETH OSBORNE: Thank you, Chairman. I thank the
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1 Board. Thank you.

2 BENNY WAMPLER: Thank you. Okay, the next item on
3 today's agenda is a petition from Consol Energy, Inc. for
4 pooling of a coalbed methane unit BC-120, docket number VGOB-
5 03-0218-1115. We'd ask the parties that wish to address the
6 Board in this matter to come forward at this time.

7 MARK SWARTZ: Mark Swartz and Les Arrington. Mr.
8 Chairman, I'd like to combine this with the next two items,
9 if it would be acceptable to the Board.

10 BENNY WAMPLER: Okay. We'll also go ahead and call
11 a petition from Consol Energy for pooling of a coalbed
12 methane unit BC-121, docket number VGOB-03-0218-1116; and
13 coalbed methane unit BD-121, docket number VGOB-03-0218-1117.
14 We'd ask the parties that wish to address the Board in these
15 matters to come forward at this time.

16 MARK SWARTZ: Mark Swartz and Les Arrington. I
17 think we passed out the updated exhibits already on these
18 three units.

19

20 LESLIE K. ARRINGTON

21 DIRECT EXAMINATION

22 QUESTIONS BY MR. SWARTZ:

23 Q. Les, I'm going to remind you're still under
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1 oath.

2 A. Yes, sir.

3 Q. Do you want to state your name?

4 A. Leslie K. Arrington.

5 Q. Where do you work?

6 A. CNX Gas Company.

7 Q. And what do you do for them?

8 A. I'm a gas engineer.

9 Q. Did you either prepare or cause to be
10 prepared under your supervision the three applications...
11 pooling applications that we're dealing with today?

12 A. Yes, I did.

13 Q. Did you sign the notices and the
14 applications?

15 A. Yes, I did.

16 Q. Are these three applications all...do they
17 all pertain to Middle Ridge I units?

18 A. Yes, they do.

19 Q. Okay. Would you tell the Board what you did
20 to notify the people that you're seeking to pool with regard
21 to each of these three units?

22 A. Yes. Unit BC-120, we mailed the notice and
23 application by certified mail return receipt requested on
24

1 January the 17th of 2003. It was published January the 24th
2 of 2003 in the Bluefield Daily Telegraph. BC-121 was mailed
3 also return receipt requested January the 17th, 2003,
4 published in the Bluefield Daily Telegraph January 23, 2003.
5 BD-121, mailed also January the 17th, 2003, published in the
6 Bluefield Daily Telegraph January the 25th, 2003.

7 Q. With regard to these three units, have you
8 listed all the folks that you're seeking to pool as
9 respondents in the notice of hearing and then again in
10 Exhibit B-3?

11 A. Yes, we have.

12 Q. Do you want to amend of these applications
13 with regard to either adding or subtracting any respondents
14 today?

15 A. No, we do not.

16 Q. Okay. To the extent that you had addresses
17 for the respondents, did you, in fact, mail to them?

18 A. Yes, we did.

19 Q. And your proofs of mailing that you filed
20 with the Board today would indicate that, correct?

21 A. Yes, it would.

22 Q. And you've also filed today, I take it,
23 copies of the certificates of publication that you get from
24

1 the...from the newspaper?

2 A. Yes, we did.

3 Q. And when you publish, I take it you publish
4 because you want to notify or increase the opportunity to
5 notify people that you might not have addresses for or that
6 might be unknown?

7 A. That's correct.

8 Q. When you publish, what get published in the
9 paper?

10 A. The notice of hearing and attached Exhibit
11 A-1.

12 Q. Now, in these three units, who is the
13 applicant?

14 A. The applicant is Consol Energy.

15 Q. Okay. And who is it that the applicant is
16 requesting be designated operator if the pooling applications
17 are approved?

18 A. Consol Energy.

19 BENNY WAMPLER: Let me ask, is it Consol Energy,
20 Inc.?

21 A. Inc., yes.

22 BENNY WAMPLER: Okay.

23 MARK SWARTZ: Les has a lot of trouble with all of
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1 these companies. It's a fair question.

2 BENNY WAMPLER: I just wanted to make sure we
3 didn't have a change.

4 MARK SWARTZ: I mean, not to, you know, open an old
5 wound, but one day I don't think he knew who he worked for.
6 Do you remember that?

7 LESLIE K. ARRINGTON: And we're getting ready, as
8 of next month, to correct the issues. So, I---

9 MARK SWARTZ: More name changes?

10 LESLIE K. ARRINGTON: For the name changes.

11 MARK SWARTZ: But it is Consol Energy, Inc.

12 BENNY WAMPLER: Okay. Thanks.

13 Q. Is Consol Energy, Inc. a Delaware
14 Corporation?

15 A. Yes, it is.

16 Q. Has it registered with the DMME?

17 A. Yes, it has.

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

19 A. Yes, it does.

20 Q. And lastly, is it authorized to do business
21 in Virginia?

22 A. Yes.

23 Q. Now, these...these three pooling
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1 applications all anticipate that one frac well will be
2 drilled, correct?

3 A. Yes...that's correct.

4 Q. Okay. And in all three of these instances,
5 the wells, it looks like they've been drilled or at least
6 they've been permitted?

7 A. They've been permitted.

8 Q. Okay. And in all three cases it looks like
9 the permit contemplates that the well would be drilled in the
10 drilling window?

11 A. That's correct.

12 Q. So, you don't need any exception for any of
13 these?

14 A. Correct.

15 Q. And from the...from the review of the plats,
16 would it appear that each one of these units, these drilling
17 units, is a 58.74 acre unit?

18 A. They are. Yes, they are.

19 Q. Okay. Now, let's turn to the first one on
20 the docket, which is BC-120, all right. You've got one well
21 in the drilling window in Tract, it looks like 1-B, correct?

22 A. That's correct.

23 Q. And if we look at whether or not a permit
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1 has been issued it appears that one has, correct?

2 A. It has, 5336.

3 Q. All right. And if we look at the interest
4 that you're seeking to affect by this pooling application if
5 we turn to Exhibit A, page two---

6 A. Yes.

7 Q. ---would you summarize where you are in
8 terms of ownership and leasing and what it is that's
9 outstanding in this unit?

10 A. Yes, we have leased 97.506% of the coal
11 owners' claim to coalbed methane; and 81.2936% of the oil and
12 gas owners' coalbed methane claim. We have 97.506% of the
13 coal leased. We're seeking to pool 2.494% of the coal
14 owners' claim to coalbed methane, and 18.7064% of the oil and
15 gas owners' claim. I might add on this tract, for instance,
16 if you'll note Tract 3, that 2.494% if you'll look at the
17 tract IDs, there appears to be a conflicting a...not only
18 conflicting title of who owns coalbed methane but a
19 conflicting title claim. We could actually have that 2.494%
20 leased, but I don't include it as though we do have it
21 leased. There's three different parties there that could
22 actually... someone...one of those three could own it. We're
23 pooling two of the three. So, at any time I have one of

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1 those situations, I always leave out our claim and just pool
2 the other parties.

3 Q. If we look at Exhibit B-3, which would be
4 the next page---

5 A. Yes.

6 Q. ---after A, page two, Tract 3 happens to be
7 the first one.

8 A. It does.

9 Q. And that shows the...these unknown folks as
10 respondents?

11 A. That's right.

12 Q. And it also shows that, in addition to
13 having a claim to the coalbed methane, these would be the oil
14 and gas estate, right, I would presume?

15 A. No, this is actually a fee ownership
16 interest here.

17 Q. Okay.

18 A. And we...this interest, one of the claims is
19 a 100% claim. The second interest is a 50% claim of which of
20 those two interests we've got one of those 50% leased. In
21 the third claim is a 7/16ths interest that we have leased, a
22 7/16ths interest that we're pooling here, and an additional
23 1/8th that we also have leased. So, you know, it's various

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1 percentages.

2 Q. Okay, so the reasons to escrow with regard
3 to Tract 3 are the fact that these heirs, devisees and
4 assigns are unknown and unlocateable? So, that is a reason
5 to escrow with regard to their interest, correct?

6 A. Correct.

7 Q. And there is a further reason for partial
8 escrow because some of this is leased and may not be subject
9 escrow. But a further reason is there is a title dispute as
10 to who is the owner or claimant with regard to this claim?

11 A. Correct.

12 Q. So, there's a cloud on title reason with
13 regard to Tract 3?

14 A. Correct.

15 Q. If we look at the balance of the tracts...
16 well, actually let's skip back to Exhibit E, okay. Exhibit E
17 is the exhibit that you're tendering to the Board to indicate
18 escrow required because of conflicting claims?

19 A. That's correct.

20 Q. And that lists Tracts 1-A and the folks that
21 are listed there, 1-B, 1-C, 1-D, 1-E, 1-L, J and K as
22 requiring...actually, we need to go on to Tract 2 and Tract 3
23 as requiring escrow because of conflicting claims and in
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1 regard to Tract 3 because of a title issue?

2 A. That's correct.

3 Q. So, the escrow order would need to deal with
4 unlocateables, title issue and conflicting claims?

5 A. Correct.

6 Q. This 58.74...these 58.74 acre units would
7 all be to produce coalbed methane, correct?

8 A. Yes.

9 Q. And from the Jawbone 1 on down assuming that
10 the Jawbone 1 was below drainage?

11 A. That's correct.

12 Q. One frac well per unit?

13 A. Yes.

14 Q. And the lease terms that you have in general
15 offered to the folks you've been able to rent from are what?

16 A. \$1 per acre per year, a five year paid up
17 term and a one-eighth production---

18 Q. Production royalty?

19 A. ---royalty, yes.

20 Q. And would you recommend those same terms to
21 the Board to be inserted in any order that it might enter
22 with regard to folks that are deemed to have been leased?

23 A. Yes, we do.

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1 Q. There are no royalty split agreements with
2 regard to BC-120. So, we don't have to address that.

3 A. That's correct.

4 Q. Now, turning to BC-121, let's go to the
5 question of a permit and the permit that was issued here is
6 number what?

7 A. 5335.

8 Q. Okay.

9 A. For well BC-121 to be drilled to a estimated
10 depth of 2,704 feet and an estimated cost of \$225,304.93.

11 Q. Let's go back to BC-120, because I neglected
12 to ask you about the depth and the estimated cost.

13 A. Yes. And BC-120, the estimated depth is
14 2,630 feet, estimated cost \$223,578.88.

15 Q. With regard...continuing now with regard to
16 BC-121, what is the status of your leasing and ownership
17 acquisition efforts?

18 A. We have 100% of the coal owners' claim to
19 coalbed methane leased, a 100% of the coal leased, 98.9942%
20 of the oil and gas owners' claim to coalbed methane. We're
21 seeking to pool 1.0058% of the oil and gas owners' claim to
22 coalbed methane.

23 Q. And the folks that you're seeking to pool
24

1 are listed in Exhibit B-3, correct?

2 A. Yeah, that's correct.

3 Q. And you're not lacking addresses?

4 A. No, sir.

5 Q. Then if we go to Exhibit E there are...

6 there is requirement for escrow with regard to a number of

7 tracts and I'll just list them for the record, Tract 1, 3-B,

8 3-C, 3-D, 3-E and that's it for escrow?

9 A. That's correct. No unknown owners.

10 Q. So, the escrow would only be for conflicting
11 claims?

12 A. Correct.

13 Q. And then in this particular instance with
14 regard to BC-121, you do have some folks who have entered
15 into a royalty split agreement?

16 A. We do, Tract Number 1...in Tract Number 1.

17 Q. And you've tendered Exhibit EE with regard
18 to that?

19 A. Yes, we have.

20 Q. So, you would ask, I take it, that the Board
21 order in this respect provide that the designated operator be
22 allowed to pay the folks listed on Exhibit EE in accord with
23 their royalty split agreement rather than paying...being

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1 required to pay that money into the escrow agent?

2 A. Yes, we would.

3 Q. Turning to BD-121, this also is a permitted
4 well?

5 A. Yes, it is, permit number 5337 to be drilled
6 to an estimated depth of 2,716 feet, estimated cost of
7 \$225,584.83.

8 Q. Looking at Exhibit A, page two with regard
9 to BD-121, where does the applicant stand in terms of leasing
10 and acquisition of ownership.

11 A. We have 100% of the coal owners' claim to
12 coalbed methane leased, 100% of the coal leased, and 93.0712%
13 of the oil and gas owners' claim to coalbed methane. We're
14 seeking to pool 6.9288% of the oil and gas owners' claim to
15 coalbed methane.

16 Q. With regard to Exhibit B-3, you're not
17 lacking any addresses in this unit?

18 A. That's correct.

19 Q. With regard to Exhibit E, it indicates that
20 there is escrow required because of conflicting claims?

21 A. That's correct. Tract 1, 3-B, 3-C and 3-E.

22 Q. And do you have a royalty split agreement?

23 A. Yes, for partial royalty split for Tract 1,
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1 3-D and 3-E.

2 Q. And are you requesting that the Board order
3 authorize you to pay the folks listed on Exhibit EE directly
4 in accordance with their royalty split agreement as opposed
5 to being required to pay their interest or the interest that
6 they have conflicting claims with regard to the escrow agent?

7 A. Yes, we are.

8 Q. Now, with regard to these three units, is it
9 your opinion that the plan of development, and that is to
10 drill a frac well in each unit at the location shown, is a
11 reasonable plan to develop the coalbed methane within this
12 three units?

13 A. Yes, it is.

14 Q. And if the Board were to grant your pooling
15 application, taking that pooling order together with the
16 leases and the ownership interest that you've obtained, is it
17 your opinion that all owners of rights to methane or
18 claimants to rights to methane within the unit would have
19 their correlative rights protected?

20 A. Yes, it would.

21 MARK SWARTZ: That's all I have.

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

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1 (No audible response.)

2 BENNY WAMPLER: All three of these are 58 acre?

3 MARK SWARTZ: Yes.

4 BENNY WAMPLER: 58.74. Do you have anything
5 further?

6 MARK SWARTZ: No.

7 BENNY WAMPLER: Is there a motion?

8 DONALD RATLIFF: Mr. Chairman, I move that we
9 approve the petition for item number two, three and four on
10 the agenda.

11 MASON BRENT: Second.

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

14 (No audible response.)

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

17 (All members signify by saying yes.)

18 BENNY WAMPLER: Opposed, say no.

19 (No audible response.)

20 BENNY WAMPLER: You have approval. Thank you.

21 MARK SWARTZ: Thank you all.

22 BENNY WAMPLER: We're at 12:30. Do you want to go
23 lunch or do you want to finish?

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1 MASON BRENT: Go forward.

2 JIM KISER: It doesn't matter to me. Whatever you
3 all want to do.

4 DONALD RATLIFF: Let's keep going.

5 BENNY WAMPLER: The next item on the agenda is
6 petition from Equitable Production Company for a well
7 location exception for proposed well P-550470, docket number
8 VGOB-03-0218-1118. We'd ask the parties that wish to address
9 the Board in this matter to come forward at this time.

10 JIM KISER: Mr. Chairman and members of the Board,
11 Jim Kiser on behalf of Equitable Production Company. Our
12 witness in this matter and the four matters that follow this
13 will Mr. Hall. I'd ask at that he be sworn at this time.

14 (Witness is duly sworn.)

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

17

18 DON HALL

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

21 DIRECT EXAMINATION

22 QUESTIONS BY MR. KISER:

23 Q. Mr. Hall, if you'd state your name for the

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1 Board, who you're employed by and in what capacity?

2 A. Don Hall. I'm employed by Equitable
3 Production Company as District Landman.

4 Q. And do your responsibilities include the
5 lands involved here for this unit and in the surrounding
6 area?

7 A. They do.

8 Q. And are you familiar with the application
9 that we filed seeking a location exception for well P-550470?

10 A. Yes.

11 Q. Have all interested parties been notified as
12 required by Section 4(B) of the Virginia Gas and Oil Board
13 regulations?

14 A. They have.

15 Q. Could you indicate for the Board the
16 ownership of the oil and gas underlying the unit for well
17 number P-550470?

18 A. Pine Mountain Oil and Gas owns 98.01% and
19 the Brown Trust owns 1.99%, which we have all of that leased.

20 Q. Okay. And we're actually seeking an
21 exception from two reciprocal wells. And does Equitable have
22 the right operate those wells?

23 A. Yes, we do.

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1 Q. Are there any correlative rights issues?

2 A. No.

3 Q. Mr. Hall, would you explain for the Board in
4 conjunction with the plat, which is Exhibit A to the
5 application and will work as our exhibit for this particular
6 hearing, why we're seeking the exception for 550470?

7 A. As you can see from the plat, we're less
8 than 2500 feet from P-47 and P-11. There's...in addition to
9 that, you see E-29 and E-7 on the plat as well. Those wells
10 that are a greater distance of 2500 feet. But there's
11 nowhere in this particular area that we could put this
12 location and not get an exception from one of these wells.
13 In effect, there's really no legal location in this area.

14 Q. Okay. In the event the location exception
15 were not granted, would you project the estimated loss of
16 reserves resulting in waste?

17 A. 400 million cubic feet.

18 Q. And what's the total depth of the proposed
19 well under the plan of development?

20 A. It's 5488 feet.

21 Q. And are you requesting that this location
22 exception cover conventional gas reserves to include the
23 designated formations from the surface to the total depth

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1 drilled?

2 A. Yes.

3 Q. And the permit has been filed for this well?

4 A. Yes.

5 Q. And in your professional opinion, would the
6 granting of this location exception be in the best interest
7 of preventing waste, protecting correlative rights and
8 maximizing the recovery of the gas reserves in the area
9 underlying the unit for P-550470?

10 A. Yes.

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

13 BENNY WAMPLER: Questions from members of the
14 Board? Mr. Harris.

15 BILL HARRIS: Just a quick question. I see wells
16 everywhere except to the west. But I see there's a road in
17 Caney Creek in that area also. Is there a problem moving it
18 to the west?

19 DON HALL: Well, we have...we do have other wells
20 to the west.

21 BILL HARRIS: Okay.

22 DON HALL: They're just---.

23 BILL HARRIS: Further...so, they would be in...
24
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1 well---.

2 DON HALL: Even if we moved it to the west, we'd
3 still be too close to P-47.

4 JIM KISER: And P-11.

5 BILL HARRIS: And P-11, yes.

6 DON HALL: And P-11.

7 JIM KISER: Yeah.

8 BENNY WAMPLER: Any other questions from members of
9 the Board?

10 DONALD RATLIFF: Mr. Chairman, on Exhibit B, you've
11 listed Alpha Land and Reserves. But I don't see it on the
12 plat. Are they involved?

13 DON HALL: They...Alpha Land and Reserves now
14 own...are the coal owners underlying the Pine Mountain
15 acreage, the Old Clinchfield property. We're not exactly
16 sure how all that's falling out. So, we're notifying
17 everybody.

18 JIM KISER: We're over notifying rather than under
19 notifying.

20 DONALD RATLIFF: I thought you may know.

21 JIM KISER: We're trying to over notify rather than
22 under notify.

23 BENNY WAMPLER: Any other questions?

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1 (No audible response.)

2 BENNY WAMPLER: Do you have anything further?

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

5 BENNY WAMPLER: Is there a motion?

6 BILL HARRIS: Mr. Chairman, I move for approval of
7 docket item 1118.

8 BENNY WAMPLER: Is there a second?

9 MASON BRENT: Second.

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

12 (No audible response.)

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

15 (All members signify by saying yes, except Donald
16 Ratliff.)

17 BENNY WAMPLER: Opposed, say no.

18 (No audible response.)

19 BENNY WAMPLER: You have approval.

20 DONALD RATLIFF: Mr. Chairman, I abstain

21 BENNY WAMPLER: Let the record note Mr. Ratliff
22 abstains. The next item on the agenda is a petition from
23 Equitable Production Company for a well location exception

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1 for proposed well V-502362, docket number VGOB-03-0218-1119.

2 We'd ask the parties that wish to address the Board in this
3 matter to come forward at this time.

4 JIM KISER: Mr. Chairman and Board members, again,
5 Jim Kiser and Don Hal on behalf of Equitable Production
6 Company.

7 BENNY WAMPLER: The record will show there are no
8 others. You may proceed.

9

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DON HALL

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DIRECT EXAMINATION

12 QUESTIONS BY MR. KISER:

13 Q. Mr. Hall, again, state your name, who you're
14 employed by and in what capacity.

15 A. I'm Don Hall. I'm employed by Equitable
16 Production Company as district landman.

17 Q. And, again, do your responsibilities include
18 the land involved in the unit for 502362 and in the
19 surrounding area?

20 A. They do.

21 Q. And are you familiar with the application we
22 filed seeking a location exception for this well?

23 A. Yes.

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1 Q. Have all interested parties been notified as
2 required by Section 4(B) of the Virginia Gas and Oil Board
3 regulations?

4 A. They have.

5 Q. And this is a well that we're going in the
6 next Board item going to force pool, is that correct?

7 A. That's correct.

8 Q. Could you indicate for the Board...I think
9 we did attach a sheet showing the coal, oil and gas and
10 mineral that we notified in compliance with 361.17. But can
11 you take the sheet that we used for force pooling and go
12 ahead and lay out the oil and gas ownership within the unit
13 for the Board?

14 A. Okay, the ownership that we have leased is
15 as follows: Penn Virginia Oil and Gas Corporation owns
16 85.31%, Gary and Carolyn Ross owns .49%, Warren A. Greer owns
17 .61%, Virginia Young...Virgil Young, I'm sorry, .40%,
18 Marjorie Greer Young and Virgil Young 9.33%, and Barbara
19 Blevins 3.35%; and then we have Carrie Davis who would be on
20 the...for the next item who is unleased .15%

21 (Jim Kiser and Don Hall confer.)

22 Q. The well we're seeking an exception from in
23 this particular application is V-2351. That is Equitable's

24

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1 well and we have the right to operate that reciprocal well,
2 is that correct?

3 A. That's correct.

4 Q. Are there any correlative rights issues
5 involved in this application?

6 A. No.

7 Q. And, again, using the plat for your exhibit,
8 could you explain for the Board why we're having to seek this
9 exception?

10 A. As you can see on the attached track list,
11 number...track number one is on the U. S. Forest Service.
12 This location was chosen by them as where they wanted us to
13 put the well in regard to the environmental impact statement
14 that we've been operating under there for several years. We
15 basically have to put the well where they propose the well to
16 be.

17 Q. So, this location was chosen by the Forest
18 Service?

19 A. That's correct.

20 Q. And can you just by way...since we have...
21 everybody's probably looking at their plat now, because I
22 know this question came up the last time and maybe we can
23 avoid it, and it's something I guess...I don't remember doing
24

1 it on the plats all the time in the past. But it sort of
2 looks like if we go to our east of the proposed location
3 we're seeking an exception for, you see a line drawn out
4 there to the U.S.F.S. disk 37. It almost looks like the same
5 way we denote the reciprocal wells that we're seeking an
6 exception from. Can you explain what...exactly what that is,
7 that it's just a survey point?

8 A. That's one of the two...that's one of the
9 two reference points to relocate the well. You're required
10 to have two reference points. There's one to the north as
11 well there. It says "iron pin".

12 Q. Uh-huh.

13 A. The one to the east U.S. Forest Service
14 reference point as well.

15 Q. Okay. I thought that might be confusing to
16 some of the Board.

17 BILL HARRIS: Can I ask a question now?

18 BENNY WAMPLER: Yes, Mr. Harris.

19 BILL HARRIS: These...these disks, I'm not sure if
20 I understand, because that was one of the questions I had.
21 Exactly what is that? Is this...I know what an "iron pin" in
22 the ground, you know, usually signifies. But is this---?

23 DON HALL: It's probably...it's probably a concrete
24

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1 monument with---?

2 BILL HARRIS: Actually with a little---?

3 DON HALL: ---a brass disk on top of it.

4 JIM KISER: Right on the top of it.

5 BILL HARRIS: Yeah, I've seen those. Okay, okay.

6 Okay, thank you.

7 Q. Okay, now, Mr. Hall, in the event this
8 location exception were not granted, would you project the
9 estimated loss of reserves resulting in waste?

10 A. 250 million cubic feet.

11 Q. And the total depth of this well under the
12 applicant's plan of development?

13 A. 5502 feet.

14 Q. And are we requesting the location exception
15 cover conventional gas reserves to include the formations
16 designated in the permit application, which has already been
17 filed, from the surface to the total depth drilled?

18 A. Yes.

19 Q. And in your professional opinion, would the
20 granting of this location exception be in the best interest
21 of preventing waste, protecting correlative rights and
22 maximizing the recovery of the gas reserves in the area
23 underlying the unit for 502362?

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1 A. Yes.

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

4 BENNY WAMPLER: Questions from members of the
5 Board?

6 (No audible response.)

7 BENNY WAMPLER: Is there a motion?

8 DONALD RATLIFF: I move that we approve the
9 petition as presented, Mr. Chairman.

10 BILL HARRIS: Second.

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

13 (No audible response.)

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

16 (All members signify by saying yes.)

17 BENNY WAMPLER: Opposed, say no.

18 (No audible response.)

19 BENNY WAMPLER: You have approval. The next item
20 on the agenda is a petition from Equitable Production Company
21 for pooling of a conventional gas unit V-502362, docket
22 number VGOB-03-0218-1120. We'd ask the parties that wish to
23 address the Board in this matter to come forward at this

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1 time.

2 JIM KISER: Mr. Chairman and Board members, Jim
3 Kiser and Don Hall again, on behalf of Equitable Production
4 Company.

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

7 JIM KISER: This is an application for a force
8 pooling of the well that we just received a location
9 exception for. We're force pooling one unleased interest.
10 That's the interest in Tract 3 owned by Carrie and Bobby
11 Davis, which represents a little more than ½ of 1% of the
12 acreage in the unit.

13

14

DON HALL

15

DIRECT EXAMINATION

16 QUESTIONS BY MR. KISER:

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

19 A. My name is Don Hall. I'm employed by
20 Equitable Production Company as district landman.

21 Q. And you're familiar with the application we
22 filed seeking the establishment of the drilling unit and the
23 pooling order for EPC well number V-502362, which was dated

24

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1 January the 17th, 2003?

2 A. Yes.

3 Q. And does Equitable own drilling rights in
4 the unit involved here?

5 A. We do.

6 Q. Now, prior to filing the application, were
7 efforts made to contact each of the respondents in the unit
8 and an attempt made to work out a voluntary lease agreement
9 with them?

10 A. Yes.

11 Q. Now, what is the interest under lease...
12 what is the interest that Equitable has under lease within
13 the unit?

14 A. We have 99.49% interest.

15 Q. Are you familiar with the ownership of the
16 drilling rights of parties other than Equitable underlying
17 this unit?

18 A. Yes.

19 Q. And what percentage remains unleased?

20 A. .51%.

21 Q. And are all the unleased parties set out in
22 Exhibit B?

23 A. They are.

24

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1 Q. In this particular case, we don't have any
2 unknown respondents?

3 A. That's correct.

4 Q. In your professional opinion, did we
5 exercise due diligence to locate each of the respondents?

6 A. Yes.

7 Q. And are the addresses set out in Exhibit B
8 to the application the last known addresses for the
9 respondents?

10 A. They are.

11 Q. Are you requesting this Board to force pool
12 all unleased interest listed in Exhibit B?

13 A. Yes.

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

17 A. Yes.

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

20 A. A \$5 bonus, five year term and a one-eighth
21 royalty.

22 Q. Did you gain your familiarity and your
23 knowledge of these terms by acquiring oil and gas leases and
24

1 other agreements involving the transfer of drilling rights in
2 the unit involved here and in the surrounding area?

3 A. Yes.

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

8 A. They do.

9 Q. Now, as to Mr. and Mrs. Davis in Tract 3,
10 the only respondents who have not voluntarily agreed to
11 lease, do you recommend that they be allowed the following
12 options...statutory options with respect to their ownership
13 interest within the unit: One, participation; two, a cash
14 bonus of five dollars per net mineral acre plus a one-eighth
15 of eight-eighths royalty; three, in lieu of a cash bonus and
16 one-eighth of eight-eighths royalty, a share in the operation
17 of the well on a carried basis as a carried operator under
18 the following conditions: Such carried operator shall be
19 entitled to his share of production from tracts pooled
20 accruing to his interest exclusive of any royalty or
21 overriding royalty reserved in any leases or assignments
22 thereof or agreement relating thereto of such tracts but only
23 the proceeds applicable to his share equal A) 300% of the

24

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1 share of such costs applicable to the interest of a carried
2 operator of a leased tract or portion thereof; or B) 200% of
3 the share of the costs applicable to the interest of a
4 carried of an unleased tract or portion thereof?

5 A. Yes.

6 Q. Do you recommend that the order provide that
7 the elections by the respondents be in writing and sent to
8 the applicant at Equitable Production Company, 1710
9 Pennsylvania Avenue, Charleston, West Virginia 25328,
10 Attention: Melanie Freeman, Regulatory?

11 A. Yes.

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

15 A. It should.

16 Q. Do you recommend that the order provide that
17 if no written election is made by a respondent, then such
18 respondent should be deemed to have leased and elected the
19 cash royalty option in lieu of participation?

20 A. Yes.

21 Q. Should unleased respondents be given 30 days
22 from the date the order is executed to file their written
23 elections?

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1 A. Yes.

2 Q. If an unleased respondent elects to
3 participate, should they be given 45 days to pay for their
4 proportionate share of the well costs?

5 A. Yes.

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

9 A. We do.

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

15 A. Yes.

16 Q. Do you recommend that the order provide that
17 if a respondent elects to participate but fails to pay their
18 proportionate share of well costs satisfactory to the
19 applicant for payment of those costs, then their election to
20 participate shall be treated as having been withdrawn and
21 void, and they should be deemed to have leased?

22 A. Yes.

23 Q. Do you provide...that the order provide that
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1 where a respondent elects to participate but defaults in
2 regard to the payment of well costs, any cash sum becoming
3 payable to such respondent be paid within 60 days after the
4 last date on which such respondent could have paid or made
5 satisfactory arrangements for the payment of those costs?

6 A. Yes.

7 Q. This is a conventional gas well. We don't
8 have any conflicting claimants and we don't have any
9 unknown/unlocateable interest owners. So, there is no reason
10 for the Board to establish an escrow account?

11 A. That's correct.

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

14 A. Equitable Production.

15 Q. And what's the total depth of the proposed
16 well under the plan of development?

17 A. 5502 feet.

18 Q. And are we requesting this force pooling
19 conventional gas reserves not only to include the designated
20 formations but any other formations excluding coal formations
21 which may be between those formations designated from the
22 surface to the total depth drilled?

23 A. Yes.

24

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1 Q. What are the estimated reserves for this
2 unit?

3 A. 250 million cubic feet.

4 Q. Are you familiar with the well costs for the
5 proposed well?

6 A. Yes.

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

9 A. It has.

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

13 A. Yes.

14 Q. In your opinion, does this AFE represent a
15 reasonable estimate of the well costs for the well under the
16 plan of development?

17 A. It does.

18 Q. Could you state for the Board both the dry
19 hole costs and the completed well costs?

20 A. The dry hole costs is \$165,7...117 and the
21 completed well cost is \$273,083.

22 Q. Do these costs anticipate a multiple
23 completion?

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1 A. They do.

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

4 A. Yes.

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

9 A. They would.

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

12 BENNY WAMPLER: Questions from members of the
13 Board?

14 (No audible response.)

15 BENNY WAMPLER: Mr. Hall, would you have them blow
16 this AFE up just one more notch? They keep getting smaller.

17 JIM KISER: They're getting hard to read, aren't
18 they.

19 DON HALL: I'll see what I can do.

20 BENNY WAMPLER: I don't mean to replace this one.
21 I'm just talking about in the future.

22 DON HALL: I'll see what I can do. They are
23 getting smaller.

24

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1 BENNY WAMPLER: Any questions?

2 (No audible response.)

3 BENNY WAMPLER: Is there a motion?

4 MASON BRENT: Mr. Chairman, I'd move that we grant
5 this application?

6 DONALD RATLIFF: Second.

7 BENNY WAMPLER: Motion and second. Any further
8 discussion?

9 (No audible response.)

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

12 (All members signify by saying yes.)

13 BENNY WAMPLER: Opposed, say no.

14 (No audible response.)

15 BENNY WAMPLER: You have approval. The next item
16 on the agenda is a petition from Equitable Production Company
17 for pooling of a conventional gas unit V-535447, docket
18 number VGOB-03-0218-1121. We'd ask the parties that wish to
19 address the Board in this matter to come forward at this
20 time.

21 JIM KISER: Mr. Chairman and Board members, Jim
22 Kiser and Don Hall, again, on behalf of Equitable Production
23 Company.

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1 BENNY WAMPLER: The record will show there are no
2 others. You may proceed.

3

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DON HALL

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DIRECT EXAMINATION

6 QUESTIONS BY MR. KISER:

7 Q. Mr. Hall, again, state your name for the
8 Board, who you're employed by and in what capacity?

9 A. My name is Don Hall. I'm employed by
10 Equitable Production Company as district landman?

11 Q. And you're familiar with the application
12 that we filed seeking the establishment of a drilling unit
13 and the pooling order for EPC well number V-535447, which was
14 dated January the 17th, 2003?

15 A. Yes.

16 Q. Does Equitable own drilling rights in the
17 unit involve here?

18 A. We do.

19 Q. And prior to filing the application, were
20 efforts made to contact each of the interest owners within
21 the unit to work out a voluntary lease agreement?

22 A. Yes.

23 Q. What is the interest of Equitable within the
24

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1 unit?

2 A. We have 99.59198% leased.

3 Q. 99.59198.

4 JIM KISER: What do you want us to do with that,
5 Sharon, call 99.59?

6 BENNY WAMPLER: I think so.

7 JIM KISER: Let's call it 99.59.

8 SHARON PIGEON: That will do.

9 Q. All right. Now, are you familiar with the
10 ownership of drilling rights of parties other than Equitable
11 underlying this unit?

12 A. Yes.

13 Q. So, at this time, what percentage of the
14 unit remains unleased?

15 A. .4080.

16 Q. No, let's go with 0.41. Would that correct,
17 Mr. Hall?

18 A. Yeah, okay.

19 Q. All right. Now, are all unleased parties
20 set out in Exhibit B?

21 A. Yes.

22 Q. Now, in this particular unit we do have some
23 unknown parties that we've force pooled on several occasions.

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1 I believe their name the Utterbacks?

2 A. That's correct.

3 Q. And were reasonable and diligent efforts
4 made again this time and sources checked to identify and
5 locate these unknown heirs including primary sources such as
6 deed records, probate record, assessors's records,
7 treasurer's records, and secondary sources such as telephone
8 directories, city directories, family and friends?

9 A. Yes.

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

13 A. They were.

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

16 A. Yes.

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

19 A. Yes.

20 Q. Now, are you familiar, again, with the fair
21 market value of drilling rights in the unit here and in the
22 surrounding area?

23 A. Yes.

24

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

3 A. A five dollar bonus, a five year term and
4 one-eighth royalty.

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

9 A. They do.

10 JIM KISER: Okay, in addition to the unknown
11 Utterbacks, we also have Michael Huff and another Huff, a
12 female. It escapes me. Maybe Betty or something or other.
13 We've pooled these people three or four times.

14 BENNY WAMPLER: Is it Michael and David?

15 JIM KISER: Michael and---.

16 DON HALL: Michael---.

17 JIM KISER: ---David.

18 DON HALL: Michael and David.

19 JIM KISER: So, they're the four individuals
20 representing that 0.41% interest who remain unleased. At
21 this time, Mr. Chairman, we'd like to ask the Board to
22 incorporate the testimony that was just taken in VGOB docket
23 number 03-0218-1121 regarding the statutory election options
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1 afforded those individuals and the time frames and
2 repercussions in which to make them and incorporate that into
3 this hearing.

4 BENNY WAMPLER: That will be incorporated.

5 Q. Mr. Hall, we do...the Board needs to
6 establish a escrow account in this particular case because of
7 the unknown/unlocateable interest owned by the Utterbacks, is
8 that correct?

9 A. That's correct.

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

12 A. Equitable Production Company.

13 Q. And what's the total depth of this proposed
14 well under the plan of development?

15 A. 5734 feet.

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

21 A. Yes.

22 Q. And the estimated reserves for this unit?

23 A. 300 million cubic feet.

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1 Q. And you're familiar with the well costs for
2 this well?

3 A. Yes.

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

6 A. It has.

7 Q. And was this AFE prepared by an engineering
8 department knowledgeable in the preparation of AFEs, and in
9 particular, knowledgeable in regard to well costs in this
10 area?

11 A. Yes.

12 Q. In your opinion, does the AFE represent a
13 reasonable estimate of the well costs for this well?

14 A. It does.

15 Q. Could you state for the Board both the dry
16 hole costs and the completed well costs?

17 A. The dry hole costs is \$171,344, and the
18 completed well costs is \$283,283...238.

19 Q. Okay, so 171344 and 283238?

20 A. That's correct.

21 Q. Do these costs anticipate a multiple
22 completion?

23 A. They do.

24

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

3 A. Yes.

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

8 A. It would.

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

11 BENNY WAMPLER: Questions from members of the
12 Board?

13 DONALD RATLIFF: Who owns the coal?

14 DON HALL: Coastal...Alpha, I guess, now own all of
15 it. Owns a 100%.

16 BENNY WAMPLER: They own a 100%?

17 DON HALL: Pardon?

18 BENNY WAMPLER: They own a 100%, did you say?

19 DON HALL: They own the whole unit, yes, Coastal or
20 Alpha.

21 BENNY WAMPLER: All right. Other questions?

22 (No audible response.)

23 BENNY WAMPLER: Is there a motion?
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1 BILL HARRIS: Mr. Chairman, I move for approval of
2 docket number 1121---

3 BENNY WAMPLER: Is there a second?

4 BILL HARRIS: ---as presented?

5 MASON BRENT: Second.

6 BENNY WAMPLER: Motion and second. Any further
7 discussion?

8 (No audible response.)

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

11 (All members signify by saying yes, except Donald
12 Ratliff.)

13 BENNY WAMPLER: Opposed, say no.

14 (No audible response.)

15 BENNY WAMPLER: You have approval.

16 DONALD RATLIFF: I will abstain, Mr. Chairman.

17 BENNY WAMPLER: Mr. Ratliff abstains.

18 DONALD RATLIFF: I was looking ahead. I had
19 questions for the next one. I couldn't find the coal owner.

20 BENNY WAMPLER: The next item is a petition from
21 Equitable Production Company for pooling of a conventional
22 gas unit V-503193, docket number VGOB-03-0218-1122. We'd ask
23 the parties that wish to address the Board in this matter to
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1 come forward at this time.

2 JIM KISER: Mr. Chairman and members of the Board,
3 Jim Kiser and Don Hall, again, on behalf of Equitable
4 Production Company.

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

7

8

DON HALL

9

DIRECT EXAMINATION

10 QUESTIONS BY MR. KISER:

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

13 A. My name is Don Hall. I'm employed by
14 Equitable Production Company as district landman?

15 Q. And you're familiar with the application we
16 filed for the establishment of a drilling unit and the
17 pooling order for EPC well number V-503193, which was dated
18 January the 17th, 2003?

19 A. Yes.

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

22 A. We do.

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

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1 efforts made to contact each of the interest owners within
2 the unit to work out a voluntary lease agreement?

3 A. Yes.

4 Q. What is the interest that Equitable has
5 leased within the unit?

6 A. We have 93.07% leased.

7 Q. Okay, and actually there is only one
8 unleased tract in the unit and that's Tract 5, which was
9 owned by a Christy Smith?

10 A. That's correct.

11 Q. And what percentage then does that tract
12 represent that is unleased within the unit?

13 A. 6.93%.

14 Q. Okay. Now, are all unleased parties set out
15 in Exhibit B?

16 A. Yes.

17 Q. Now, in this particular case, we don't have
18 any unknown or unlocateable folks, do we?

19 A. No.

20 Q. Okay, in your professional opinion then was
21 due diligence exercised to locate each of the respondents
22 named herein?

23 A. Yes.

24

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1 Q. And are the addresses set out in Exhibit B
2 to the application the last known addresses for the
3 respondents?

4 A. Yes.

5 Q. Are you requesting this Board to force pool
6 all unleased interest listed at Exhibit B?

7 A. Yes.

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

11 A. Yes.

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

14 A. A five dollar bonus, a five year term and
15 one-eighth royalty.

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

20 A. It does.

21 JIM KISER: Mr. Chairman and members of the Board,
22 as to Ms. Smith's election options that she's afforded by
23 statute, we'd once again ask that the testimony regarding
24

1 those and the time periods in which to make them was taken in
2 VGOB docket number 03-0218-1120 be incorporated into this
3 hearing.

4 BENNY WAMPLER: That will be incorporated.

5 Q. Mr. Hall, we do not...the Board does not
6 need to establish an escrow account for this particular unit,
7 is that correct?

8 A. That is correct.

9 Q. And who should be named the operator under
10 the force pooling order?

11 A. Equitable Production Company.

12 Q. And what is the total depth of the proposed
13 well under the plan of development?

14 A. 5126 feet.

15 Q. And are you requesting the force pooling of
16 these conventional gas reserves not only to include the
17 designated formations, but any other formations excluding
18 coal formations which may be between those formations
19 designated from the surface to the total depth drilled?

20 A. Yes.

21 Q. What are estimated reserves for this unit?

22 A. 250 million cubic feet.

23 Q. Now, are you familiar with the well costs
24

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1 for this well?

2 A. Yes.

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

5 A. It has.

6 Q. And was the AFE prepared by an engineering
7 department knowledgeable in the preparation of AFEs and
8 knowledgeable in regard to well costs in this area?

9 A. Yes.

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

12 A. It does.

13 Q. Could you state for the Board both the dry
14 hole costs and the completed well costs?

15 A. 168,652 is the dry hole costs, and the
16 completed well costs is \$276,029.

17 Q. Do these costs anticipate a multiple
18 completion?

19 A. They do.

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

22 A. Yes.

23 Q. And in your professional opinion, would the
24

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1 granting of this application be in the best interest of
2 conservation, the prevention of waste, and the protection of
3 correlative rights?

4 A. Yes.

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

7 BENNY WAMPLER: Questions from members of the
8 Board?

9 DONALD RATLIFF: Yeah, I'll go back to my last
10 question. Who owns the coal here?

11 DON HALL: Alpha as well as some other people.

12 DONALD RATLIFF: It's not...there's no attachment.

13 JIM KISER: It's a conventional well.

14 DONALD RATLIFF: Conventional well.

15 DON HALL: Conventional well. So, I don't need to
16 know who the coal owner is.

17 BENNY WAMPLER: Any other questions?

18 (No audible response.)

19 BENNY WAMPLER: Do you have anything further?

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

22 BENNY WAMPLER: Is there a motion?

23 DONALD RATLIFF: So moved, Mr. Chairman.

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1 BENNY WAMPLER: Motion for approval. Is there a
2 second?

3 BILL HARRIS: Second.

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

6 (No audible response.)

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

9 (All members signify by saying yes.)

10 BENNY WAMPLER: Opposed, say no.

11 (No audible response.)

12 BENNY WAMPLER: You have approval. Thank you.

13 DON HALL: Thank you.

14 BENNY WAMPLER: The last item on the agenda is the
15 Board on its own motion will consider adoption of standard
16 form orders, which are also proposed to be submitted
17 henceforth beginning today by the petitioners. Copies of the
18 orders are currently under consideration were distributed at
19 the January Board meeting with a solicitation for review and
20 comment. We thank those who took time to comment. I guess
21 at this point in time if there's any additional discussion,
22 I'd ask Mr. Wilson or Ms. Pigeon for any comments they may
23 offer on this. But I think we...we have a form order that's

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1 incorporated most of the comments that we've received.

2 SHARON PIGEON: I didn't have an opportunity to
3 send back the ones that were commented and I think that your
4 comments were all incorporated.

5 JIM KISER: Yeah. I've just got some other
6 questions from the last batch that you sent.

7 SHARON PIGEON: New questions. We don't have any
8 place on the docket for new questions.

9 JIM KISER: Well, sort of really the same
10 questions, and it's not big. I mean, I'll do it whatever way
11 you want me to do it.

12 BENNY WAMPLER: We're not taking questions.

13 MARK SWARTZ: Can you do that? (Inaudible).

14 BENNY WAMPLER: In jest.

15 JIM KISER: In jest.

16 MARK SWARTZ: Well, I thought you could give some
17 advice here and be bullet proof.

18 JIM KISER: Well, what do I have here. I thought I
19 had all mine here.

20 (Jim Kiser reviews his notes.)

21 JIM KISER: I don't have any questions on the form
22 for location exceptions. I'm perfectly fine with that. The
23 only questions that I have on the proposed orders for either

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1 a conventional well or a...in our case, you did it as a Nora
2 order, CBM well, is how you want us to do the exhibits,
3 because, you know, we do Exhibit B? That's what we do. They
4 do apparently B-1, B-2 and B-3 and maybe some other stuff
5 too. And from these drafts...the latest drafts that you sent
6 me, I guess maybe a week or so ago, you know, in anticipation
7 of doing this today, still on both...and they don't do
8 conventional wells, on both the conven...the proposed
9 conventional order and the proposed Nora order, it still
10 talks about B-3. It also talks about E something, which is
11 something else they do.

12 SHARON PIGEON: Did you read my transmittal note
13 that says, "I am recommending that all applicant's use
14 standard exhibit markings."

15 JIM KISER: Standard exhibit markings?

16 SHARON PIGEON: The ones that they are using.

17 JIM KISER: The ones that they are using. Okay.
18 Well, I need to get a copy of the way they do it then
19 because---

20 MARK SWARTZ: If you guys call, I'll tell you.

21 JIM KISER: Okay. I don't...I mean, it doesn't
22 matter to me how we do it.

23 SHARON PIGEON: Well, it's just for our use---.

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1 BENNY WAMPLER: It would just help if everybody
2 used it.

3 SHARON PIGEON: ---if we were all using the
4 same---.

5 JIM KISER: Okay.

6 MARK SWARTZ: It's easier for everybody because,
7 you know, when I get something you've done, then the numbers
8 are different (inaudible).

9 JIM KISER: Right.

10 BENNY WAMPLER: That's what we're trying to do is
11 get everybody on the same page. So, you don't have any
12 objection to those.

13 JIM KISER: I don't think. What's...what is...I
14 mean, it seems to me like yours is sort of repetitive,
15 frankly.

16 MARK SWARTZ: Well, B...if we have an Exhibit B-1
17 or E---.

18 JIM KISER: Right.

19 MARK SWARTZ: ---it would list every owner or
20 claimant in the unit regardless of whether or not they are
21 leased. For example, you created a drilling a unit, that
22 would be an instance where you would even...if it was a big
23 unit on some of those sealed units, we would have an Exhibit
24

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1 E which listed every owner or claimant.

2 JIM KISER: Okay, so the first exhibit, which is
3 called Exhibit B...now, wait a minute let's back up.

4 MARK SWARTZ: And then B-2---.

5 JIM KISER: Let's back up. Wait a minute.
6 Conventional wells, they don't do...can we keep doing that in
7 the way we've been doing it? You don't have conflicting
8 claimants. You don't have...I don't know why you would ever
9 need more than one exhibit.

10 SHARON PIGEON: Well, the thought here is that if
11 you pick up something that is marked with a letter, it is
12 always the same thing.

13 BENNY WAMPLER: Yeah, you wouldn't include the ones
14 that you didn't have anything...any reason to be using.
15 You'd just include the applicable exhibits.

16 JIM KISER: Well, but see, the way they do it as
17 far...they, to me, regurgitate the same thing two or three
18 times just for whatever reason they do it. But---.

19 SHARON PIGEON: Just so we'll understand it I guess
20 is why they do it.

21 MARK SWARTZ: Well, A is the plat, is always the
22 plat.

23 JIM KISER: Okay.

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1 MARK SWARTZ: B is if we...if for some reason we
2 need to list everybody who's an owner or claimant, we use an
3 Exhibit B. If we don't have to do that, we don't use that.

4 JIM KISER: You don't?

5 MARK SWARTZ: No. B-2 would be a list of people
6 that we either dismissed or added and would be the reasons
7 why. B-3 is the people we're pooling. C is always the---.

8 JIM KISER: Dismissed or added since when?

9 MARK SWARTZ: Well, we come to the hearing and we
10 might want to add somebody---.

11 JIM KISER: Since the time you filed the original
12 application?

13 MARK SWARTZ: Oh, yeah, because, you know, two
14 months---.

15 JIM KISER: Okay.

16 MARK SWARTZ: ---can go by and---.

17 JIM KISER: So, that one may not happen either?

18 MARK SWARTZ: Correct. And B-3 then would be the
19 list of respondents.

20 JIM KISER: And their interest and whether they're
21 leased or not?

22 MARK SWARTZ: Right.

23 JIM KISER: Okay, I thought---.

24

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1 MARK SWARTZ: No, no, no, we...B-3 is only the
2 people we're pooling.
3 LESLIE K. ARRINGTON: Unleased interest.
4 MARK SWARTZ: Unleased interest.
5 JIM KISER: So, if you don't need to use B and you
6 don't need to use B-2---?
7 MARK SWARTZ: You always use---.
8 JIM KISER: ---then all you have is the people---?
9 MARK SWARTZ: B-3...B-3.
10 JIM KISER: ---that you're pooling?
11 MARK SWARTZ: Correct.
12 JIM KISER: So, the other people who have already
13 leased in the unit never get listed?
14 MARK SWARTZ: Correct. Unless you create a unit
15 that is larger...if you created a drilling unit, a
16 conventional unit, that was larger than your permission to
17 create a unit in your lease, then you would have to notice
18 them to create the unit.
19 JIM KISER: That's going to be rare.
20 MARK SWARTZ: I know. But, I mean, you know, there
21 is...you know, and I guess...you know, if you're perfect
22 unlike we are, you know, we need B-2 all the time, you know,
23 because we're always adding or subtracting.

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1 JIM KISER: See, we rarely do.

2 MARK SWARTZ: I know. It just must be amazing.

3 MARK SWARTZ: C then is a well cost estimate, which
4 we both need.

5 JIM KISER: Right, AFE.

6 MARK SWARTZ: We used to use something for D, but I
7 can't remember what it was.

8 JIM KISER: Well, see this thing lists another one.
9 It's list...the Nora order lists...see, this says your
10 conflicting gas owners and claimants are listed in an Exhibit
11 E.

12 MARK SWARTZ: Okay, the escrow requirement is in
13 Exhibit E. So, conflicting claimants is Exhibit E.

14 BENNY WAMPLER: You wouldn't have that.

15 MARK SWARTZ: If you've got royalty split---.

16 JIM KISER: Oh, yeah, we have it on CBM wells.

17 BENNY WAMPLER: I mean, if you wasn't---.

18 MARK SWARTZ: And if you have got royalty split
19 agreements to solve the conflicting claims problem, that's a
20 double E.

21 JIM KISER: Don, your rates are going up.

22 DON HALL: So are mine.

23 JIM KISER: Huh, so are yours, yeah. All right.

24

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1 So, A is the plat, B, plain B or B-1 or whatever you want to
2 call it. What do you call B or B-1?

3 MARK SWARTZ: We usually call it B.

4 JIM KISER: B is a listing of everyone who may be a
5 possible claimant within the unit. What is the determination
6 of whether or not you do that?

7 MARK SWARTZ: Well, you would only do that if you
8 want...if you wanted to list owners that you weren't pooling
9 for some reason. So, if you were creating a---

10 JIM KISER: Yeah, in the case of conventional
11 wells, which you aren't doing, you'd have to do that because
12 you're establishing a drilling unit.

13 BENNY WAMPLER: Right.

14 JIM KISER: Okay. So, we're going to have a B. We
15 wouldn't have to do in the case of a CBM well?

16 MARK SWARTZ: Assuming you were in a field.

17 JIM KISER: Right. And in that one you don't
18 list...you just list their name and address, you don't list
19 the percentage of the unit that they own or any of that
20 stuff, do you?

21 LESLIE K. ARRINGTON: Well---

22 MARK SWARTZ: I don't think you have to but we
23 do---

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1 LESLIE K. ARRINGTON: We do.

2 MARK SWARTZ: ---because it's just easier. You
3 know, we've got it and we've done it once.

4 JIM KISER: You don't list whether it's leased or
5 unleased, you just list what percentage of that would be in
6 the unit?

7 LESLIE K. ARRINGTON: The purpose for our Exhibit B
8 is actually our provisional order.

9 JIM KISER: Okay.

10 LESLIE K. ARRINGTON: And once that's set up, we
11 start making everything from that exhibit, everything is
12 generated.

13 JIM KISER: And B-2 is anybody that you're going to
14 have to...that you need to add or dismiss since the time that
15 you filed your original application.

16 MARK SWARTZ: Right.

17 JIM KISER: B-3 is just the people that are being
18 pooled.

19 MARK SWARTZ: Force pooled, right.

20 JIM KISER: C is the AFE. There is no D?

21 LESLIE K. ARRINGTON: Exhibit D, Anita and I have
22 talked about what is that exhibit for just a second. A while
23 ago we were doing some units that folks...we had to list

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1 everybody in Exhibit B but then it was also being a forced
2 pooled unit as we listed them over there. So, we also listed
3 and Exhibit D, people who that did not get an election
4 opportunity.

5 MARK SWARTZ: Oh, right. Yeah, yeah.

6 LESLIE K. ARRINGTON: So, people that we always
7 listed in Exhibit D had no elections.

8 MARK SWARTZ: Well, here's what happened. We
9 solved that problem, which is why we don't do it anymore.
10 When you notice...you know, if you get out a notice and
11 you're creating a drilling unit, in addition to pooling that,
12 you can't provide election options to everybody in Exhibit B
13 because you're giving election options to people you've
14 leased from.

15 JIM KISER: Right.

16 MARK SWARTZ: So, we use to use D to sort of
17 subtract---

18 JIM KISER: Sort that out, okay.

19 MARK SWARTZ: ---that out. Now, since we've
20 standardized the B-3, the way the orders are worded is the
21 election option, participation option---

22 JIM KISER: Those are people in B-3.

23 MARK SWARTZ: ---so if they always do B-3 so then
24

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1 you're square with---.

2 JIM KISER: You sort of substituted B-3 for D?

3 MARK SWARTZ: Yeah. We don't use it.

4 LESLIE K. ARRINGTON: And we haven't used it in a
5 long time.

6 JIM KISER: All right.

7 BENNY WAMPLER: But they do have EE.

8 JIM KISER: Yeah. Well, I haven't gotten to that
9 yet.

10 MARK SWARTZ: That's the split agreement.

11 JIM KISER: I'm trying to go in alphabetical order.

12 MARK SWARTZ: That's the...that's the split
13 agreement.

14 SHARON PIGEON: He's just trying to complicate it.

15 JIM KISER: So, you don't have any problem with not
16 having a D? We're skipping from C to E.

17 SHARON PIGEON: I'm cool with that.

18 JIM KISER: All right. E is going to be the
19 conflicting claimants in the case of a CBM well. Then EE
20 would be potential...you know, potentially we'd have that in
21 the case of the Rogers wells because I've got that royalty
22 split agreement, which I think is the only people we have
23 that on.

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1 BENNY WAMPLER: Right.

2 JIM KISER: And that's all...that's all the
3 exhibit, right?

4 SHARON PIGEON: That's it.

5 JIM KISER: All right. I'm clear, I guess. It's
6 just a completely different way. I've been doing it one way
7 for eleven years.

8 MARK SWARTZ: But see, you're way younger than I
9 am. And probably it's going to be easier for you to change,
10 you know.

11 JIM KISER: Don't try to be nice to me.

12 MARK SWARTZ: I didn't feel like I was trying to be
13 nice.

14 SHARON PIGEON: Did he give you that mis---?

15 JIM KISER: Yeah.

16 MARK SWARTZ: I'm always misunderstood.

17 SHARON PIGEON: I think my---.

18 JIM KISER: We have to talk to Melanie Freeman
19 about this, Don. And this starts with the application we
20 file for April? We've already filed the March ones. This
21 wasn't in place.

22 SHARON PIGEON: Well, that's true. But for the
23 orders---.

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1 JIM KISER: Well, it's going to have to be April
2 for those too, because you can't have the applicant---

3 MARK SWARTZ: CNX on one month.

4 JIM KISER: Yeah, it's one month. The deadline for
5 March was last Friday, and those have been filed in the old
6 way.

7 BENNY WAMPLER: Well, the only difference...I mean,
8 it wouldn't affect the standard form order today. It just
9 affects the exhibit reference.

10 JIM KISER: Right.

11 SHARON PIGEON: The exhibit reference would need to
12 be---

13 BENNY WAMPLER: It would just need to be---

14 JIM KISER: Right. When we file applications for
15 the April hearing in March, I will need to do them like this
16 and we will need to submit...what's this going to be? Don't
17 we need to submit a proposed order with the application, too?

18 MARK SWARTZ: Right.

19 JIM KISER: Is this going to be Exhibit F?

20 LESLIE K. ARRINGTON: Yes.

21 MARK SWARTZ: Yeah. That is Exhibit F. The
22 proposed order---

23 LESLIE K. ARRINGTON: It is.

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1 MARK SWARTZ: ---is Exhibit F. We left that out.
2 We're just so organized.
3 JIM KISER: Huh?
4 MARK SWARTZ: We're just so organized.
5 JIM KISER: All right.
6 SHARON PIGEON: You're going to thank us for this
7 later.
8 JIM KISER: Yeah, you tell me how.
9 SHARON PIGEON: Isn't that what they told me when I
10 got this---?
11 BENNY WAMPLER: You're still working on it.
12 SHARON PIGEON: Yeah, I'm still---.
13 JIM KISER: All right. If I have any questions,
14 I'll call you.
15 SHARON PIGEON: Is that it? Do you think you're
16 okay with that?
17 JIM KISER: Yeah.
18 SHARON PIGEON: I think most of the comments that
19 you all made have been incorporated. I just didn't get to
20 that last one until so late in the day on Friday that I
21 didn't get it out to you. But I'll go ahead and send it out
22 to you. I think maybe one thing has not been changed. The
23 Oakwood took quite...quite a bit of work. But it was...we
24

1 put it all in that way. So, we're okay with doing that.

2 JIM KISER: I mean, did you submit these as F with
3 your March applications?

4 MARK SWARTZ: We've been doing it for a couple now.

5 JIM KISER: Oh, okay.

6 LESLIE K. ARRINGTON: Not...not this one.

7 MARK SWARTZ: Not that.

8 SHARON PIGEON: Right.

9 MARK SWARTZ: We submit an order that we...that is
10 patterned after the Board's order that we modify and fill in
11 the blanks and so forth---

12 JIM KISER: Oh, okay.

13 MARK SWARTZ: ---because we use it...the reason we
14 started doing that was when we changed the application and
15 notice of hearing. The statute and the rules require us to
16 tell people what relief we're seeking. So, we figured we
17 would incorporate that order and that would satisfy our
18 notice requirements. So, that was...I mean, I'm not sure we
19 ever had this discussion. But that's...we are...we are going
20 to continue probably to serve the order on the people that
21 we're naming as respondents because that's their...that's how
22 we alert them as to what relief we're seeking. That's just
23 what we have done.

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1 SHARON PIGEON: I can email this with the changes
2 to you guys so you'll have them.

3 MARK SWARTZ: That will be great.

4 BENNY WAMPLER: Do you have both their email
5 address?

6 SHARON PIGEON: I think that I...I think that I do.
7 I think there was only one that we didn't incorporate. If
8 you have any questions---.

9 MARK SWARTZ: Do you remember which one?

10 SHARON PIGEON: Bob, do you remember which one it
11 was?

12 BOB WILSON: No.

13 JIM KISER: Can you email these proposed orders to
14 me?

15 SHARON PIGEON: Uh-huh.

16 JIM KISER: So, we can just---.

17 SHARON PIGEON: I have---.

18 JIM KISER: So, we'll have them like that. I guess
19 we can scan them.

20 BENNY WAMPLER: That's what we're going to do.

21 BILL HARRIS: A disk will---.

22 BENNY WAMPLER: No, we're going to email them to
23 you.

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1 SHARON PIGEON: We are going to email them to you
2 and then we can---.

3 JIM KISER: Okay. So, she don't have to reproduce
4 them. I guess we could always scan them.

5 MARK SWARTZ: It's a whole lot easier.

6 JIM KISER: Yeah.

7 SHARON PIGEON: We think we have a software to
8 track the changes.

9 BENNY WAMPLER: Yeah.

10 SHARON PIGEON: So, that way we can really pick up
11 on it without it being difficult.

12 JIM KISER: I might have had one or two---.

13 MARK SWARTZ: Are you guys still using WordPerfect
14 or are you using---?

15 SHARON PIGEON: No, we use Word.

16 BENNY WAMPLER: Word...Word. We don't use
17 WordPerfect.

18 MARK SWARTZ: Okay, good, because I'd rather use
19 Word as well. And that's easier to track the changes.

20 SHARON PIGEON: And what is that software that
21 allows us to track the changes?

22 MARK SWARTZ: Well, Word allows you to do it. You
23 just turn it on.

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1 BILL HARRIS: Yeah, it's a feature of the Word.

2 Yeah.

3 BOB WILSON: No, this---.

4 BENNY WAMPLER: Well, yeah, but we bought software
5 that will pick up anything else that you change...anything
6 that's changed in the document, it will flag it. So---.

7 MARK SWARTZ: Oh, compare...yeah, we've got...yeah.

8 JIM KISER: Well, I'm probably...you don't want to
9 do it now because I know everybody wants to go to lunch. But
10 I'm probably going to need to take this and go back and look
11 at these again to make sure I'm still clear or in agreement
12 on what they say.

13 SHARON PIGEON: Do you have email address on your
14 card?

15 JIM KISER: No, it's jeklaw@chatertn.net.

16 SHARON PIGEON: jeklaw@chater.net.

17 JIM KISER: chartertn.net.

18 SHARON PIGEON: tn.

19 MARK SWARTZ: When we get those orders, we'll use
20 that form---.

21 JIM KISER: Because the conventional order, which
22 they don't have to deal with but we do obviously, and we're
23 going to adopt this same set of exhibits for both

24

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1 conventional well and CBM wells only talks about an Exhibit
2 B, for instance. I mean, so there's already a problem.

3 SHARON PIGEON: Uh-huh.

4 JIM KISER: No, except for when you get back here
5 you start talking about B-3, which is only the people who
6 you're force pooling. See, I've already got this down.

7 SHARON PIGEON: See, it's so easy for you. I don't
8 know why you would be complaining.

9 JIM KISER: And then I would...I would suggest, you
10 know, on the CBM orders...I don't know about their Oakwood
11 and, you know, they got gob and sealed gob and all of that.
12 We've basically got Roaring Fork and Nora. The formations
13 are not...or the coal seams are not always the same in this
14 Nora one. You've kind of got them listed out including a
15 bunch of Poca seams. I don't know that I just wouldn't leave
16 that blank.

17 SHARON PIGEON: Well, you don't have to fill in the
18 blank. We have put blanks in them when we first started---

19 JIM KISER: Oh, you all will fill them in for the
20 testimony?

21 SHARON PIGEON: No.

22 JIM KISER: No.

23 SHARON PIGEON: You're going to fill in the
24

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1 information, but you don't have to use a blank to do it
2 necessarily. I mean you need more space. I think that was
3 part of your comment. You can go ahead and type of it in
4 there. The software will pick up---

5 JIM KISER: Okay.

6 SHARON PIGEON: ---that you just have gone on to
7 another line or something. So---

8 JIM KISER: Okay. So, we can do that?

9 SHARON PIGEON: You can do that, yeah.

10 JIM KISER: We can modify that as we go?

11 SHARON PIGEON: Right, right.

12 MARK SWARTZ: I guess I didn't really...I'm not
13 sure I had the time to think about it. The way you list...I
14 mean, as long as we've got an opportunity to---

15 JIM KISER: That's---

16 MARK SWARTZ: The way you guys list page three, you
17 know, those comments---

18 SHARON PIGEON: All that stuff at the top that I
19 particularly hated.

20 MARK SWARTZ: Do we need to continue to do that?

21 SHARON PIGEON: I don't know why it was ever done
22 that way. That's just the way I inherited it.

23 MARK SWARTZ: It takes up a huge...because that's

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1 where you list those seams and so forth and takes a
2 tremend---.

3 JIM KISER: Well, see, that's the second time
4 they're listed.

5 LESLIE K. ARRINGTON: Yes, it is.

6 MARK SWARTZ: Right.

7 SHARON PIGEON: They're listed in the narrative
8 just before---

9 MARK SWARTZ: Right.

10 SHARON PIGEON: ---you get to that.

11 MARK SWARTZ: Right. And then the well
12 information---

13 SHARON PIGEON: That's really kind of hard to do as
14 far as deciphering and getting in those columns.

15 BENNY WAMPLER: I don't think anything makes us do
16 it as long as it's incorporated in the order and it is.

17 MARK SWARTZ: And the...yeah, because of the well
18 information we put in somewhere else as well. You might just
19 consider before you send those to us---

20 SHARON PIGEON: I don't have any problem---

21 MARK SWARTZ: ---just ditch that if it's okay with
22 you all.

23 SHARON PIGEON: ---with it. That's the way it
24

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1 came.

2 MARK SWARTZ: It cuts out a half a page.

3 SHARON PIGEON: It's also a problematic page.

4 That's the kind of thing going email drafts would get out of
5 alignment, you know.

6 BENNY WAMPLER: Yeah.

7 BILL HARRIS: Tabs.

8 MARK SWARTZ: And it's an opportunity to make a lot
9 of mistakes. There's a lot of blanks on it that are filled
10 in elsewhere.

11 BENNY WAMPLER: Okay, let me ask this so that we're
12 not...Jim, you're not under the gun like this. Why don't we
13 just continue this docket item before the Board adopts this,
14 but ask you go ahead and implement as though we adopted it
15 today and let's work through the process and then the next
16 time we'll put them up for adoption, any changes and---

17 JIM KISER: But go ahead and file my April ones
18 under this format?

19 BENNY WAMPLER: Yes.

20 JIM KISER: Okay.

21 BENNY WAMPLER: And like I say, work through, you
22 know, starting today anything you have under these formats as
23 though...and then just see what---

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1 JIM KISER: Well, I don't think it's going to be
2 any problem.

3 BENNY WAMPLER: ---kind of problem it may flush and
4 then we'll adopt it next month. Is that fair?

5 JIM KISER: Yeah.

6 MARK SWARTZ: Yeah.

7 BENNY WAMPLER: Okay. Do you have anything, Mr.
8 Wilson?

9 BOB WILSON: On this particular thing, I think we
10 need to provide a little bit of flexibility in this thing for
11 when we find better ways to do things in the future. I don't
12 think we need to absolutely lock in these forms because like
13 the paragraph you just brought to their attention, things of
14 that sort. Exhibits that may take less space. If you come
15 up with a better way to do that, we should be able to come
16 back and I think...I don't see any reason we couldn't do some
17 of this stuff administratively if it works for you and me
18 since we're the ones who are handle the paper. We're also
19 going to have additional orders that we're going to have be
20 concerned with. For instance, the disbursement order. We
21 want to get one of those in standard form. We haven't
22 brought that to you yet.

23 JIM KISER: A modification of field rule orders.

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1 BOB WILSON: Right. Things of this sort. So, I
2 would like to suggest that maybe we work toward an
3 administrative way of handling this rather than having to
4 bring each one to the Board. We can always circulate to the
5 Board for their comments. But, like I say, since...from our
6 standpoint, Sharon and I are the ones who are going to be
7 dealing with the paper. You guys are dealing with them
8 there. If we can come up with a better way to do something
9 that would be a mechanism that we can go ahead and do it
10 without having to bring each and every form---

11 JIM KISER: One Exhibit B.

12 DON HALL: Cut the reduction down.

13 JIM KISER: Huh, cut the reduction. What happens
14 if...what happens if---

15 BOB WILSON: Well, hey, that's---

16 JIM KISER: ---because people showing up and
17 testimony changing or whatever that changes need to be...
18 there need to be changes from the testimony and evidence
19 presented at the hearing that need to be reflected in the
20 final order. Do you just do that or do we have to go back
21 and do that?

22 SHARON PIGEON: You should be able to add a
23 paragraph, Bob Smith showed up to testify.

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1 JIM KISER: So, we've got to do that, too?

2 SHARON PIGEON: You'll be here. You're here.

3 DON HALL: Do we get a copy of the transcript?

4 MARK SWARTZ: Take notes for God's sake.

5 SHARON PIGEON: Usually, I don't have a transcript
6 when I'm working on there because it's, you know, a tight
7 kind of thing on getting the transcript. Depending where she
8 is on...how many were there and all that.

9 BOB WILSON: We'll sell you one.

10 MARK SWARTZ: Don't put us on your mailing list.

11 SHARON PIGEON: When I'm doing them, I rely on my
12 notes and then I try to double check from the transcript.

13 LESLIE K. ARRINGTON: Anita, takes good notes.

14 BENNY WAMPLER: Right.

15 BOB WILSON: I would like to respond to one thing
16 that Jim said a second ago. The extra pages do matter
17 because we're paying to record this stuff and these guys are
18 paying to mail this stuff out. It all adds up to the cost.
19 I know we're trying to cut our end out as much as we can. I
20 think everybody's trying to pinch right now. So, anything
21 that can shorten the thing it's also of an economic value to
22 all of us.

23 MARK SWARTZ: And along those lines, because I

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1 didn't realize that we had an opportunity to just talk
2 conceptually, I have wondered why you attach the exhibits
3 that you record, some of them. I mean---.

4 SHARON PIGEON: Anything that's referred to in the
5 order has to be attached. I don't think you can refer to an
6 exhibit in an order and not have it there.

7 BENNY WAMPLER: No, you'd have to have it there for
8 whoever wants to---.

9 SHARON PIGEON: Yeah, when they pick up, it's
10 complete on its face.

11 BENNY WAMPLER: You've got to have a complete---.

12 SHARON PIGEON: The things that are not referred to
13 in the order don't have to be.

14 BENNY WAMPLER: Bob, responding to your...to your
15 comment, and fully respectful, I really think if the Board is
16 going to have an adopted form of order, we'd have to stick to
17 the Board having to change that. Now, I don't think that
18 that's saying we're going to be inflexible with suggested
19 changes. I think we can rapidly move to adopt those changes.

20 But I think we're better off to have that because it's too
21 easy to get back in four or five different ways of doing
22 something. That makes it...that starts cutting into the
23 ability to keep an efficient process, I think, overall. So,

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1 I'm not...I think your suggestion was good that we remain
2 flexible. But I don't think it's going to be a big problem.
3 I think, in fact, it would help for the Board to keep it as
4 an adopted form of order.

5 SHARON PIGEON: You should be able to do that *sua*
6 *sponte* pretty quickly. It's not going to be starting over
7 like this.

8 BENNY WAMPLER: Just list it next month.

9 JIM KISER: Well, that's a procedural thing among
10 you all. But since we're here discussing this ad hoc, I do
11 want to make a couple of comments. A, the plat, that's fine.
12 I mean, it's...Exhibit B, which in the case of conventional
13 wells, I mean, I understand I guess why they do it. But B
14 and B-3, with B being, you know, you've got a list of people
15 who are in the unit to establish; B-3 lists only the interest
16 being pooled. I still don't know why, particularly in the
17 case of conventional well, you couldn't just do that in one
18 exhibit. B-2, which is when they add or dismiss people, what
19 we've been doing is just providing you at the hearing with a
20 revised exhibit B. I don't know what the beef is there. E I
21 can understand on a CBM well because that way it lays out who
22 the conflicting claimants are for you. Whereas, on our
23 exhibit, you'd have to...we do it by putting gas estate only
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1 and coal estate only and you kind of have to go through them
2 and maybe match up the tracts and see who are conflicting. I
3 mean, maybe that is a little bit harder for...not only for
4 you but for somebody that is running title or something or
5 somebody, you know, picks these things up. I still think
6 this is a hell of lot of exhibits.

7 MARK SWARTZ: Well, the reason we do Exhibit E
8 because the Board rules require us to do it. The Board rules
9 require us to tell them who needs to be escrowed. It's not
10 like...I mean---.

11 JIM KISER: Well, we do it, too. We just do it in
12 a different fashion.

13 MARK SWARTZ: But, I mean, you know, we are
14 required to disclose that to the Board as part of the
15 process. So, that's why we do that. Our problem, you know,
16 with having one Exhibit B, if all I had was a B that listed
17 everybody in the unit, then I don't have to have some lengthy
18 recitation of the people in that exhibit that I wasn't
19 pooling.

20 JIM KISER: No, you wouldn't. You just list them
21 as leased or unleased.

22 SHARON PIGEON: Well, but he...this way you don't
23 have to attach B to the order. You're attaching only B-3,

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1 which is going to be a smaller exhibit.

2 JIM KISER: You do in the case of a conventional
3 well.

4 MARK SWARTZ: Yeah, but you're dealing with a
5 finite number of people normally.

6 JIM KISER: Yeah.

7 MARK SWARTZ: And we have hundreds of people. And
8 you're right, I mean, from a paperwork standpoint.

9 SHARON PIGEON: The B-3 is much more manageable.

10 JIM KISER: So, the goal here is to make sure every
11 operator is doing this exactly the same way and that does
12 what for you? Makes it easier and faster?

13 MARK SWARTZ: I know what it does for---.

14 SHARON PIGEON: It makes it easier for me to do the
15 three jobs I'm currently assigned.

16 JIM KISER: Well, I'm not trying to be smart or
17 anything. I'm asking a question.

18 BENNY WAMPLER: I think it helps the public
19 really---.

20 JIM KISER: Yeah, okay.

21 BENNY WAMPLER: ---once they see how things are
22 done to understand, and it does facilitate a review
23 internally.

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1 MARK SWARTZ: Well---.

2 SHARON PIGEON: And I think it helps us answer
3 questions like the gentleman that was here earlier today. If
4 we had had an Exhibit E to see if he was ever subject to
5 escrow as opposed to just him talking about things in the
6 abstract and not doing...not having these figures there.

7 MARK SWARTZ: Well, from our standpoint in
8 reviewing orders, every time that...it occurs to me that
9 every time Gloria or whoever was doing them in the past, you
10 know, and then giving them to Sandy, there was a different
11 operator that got in the loop of my form. When I got the
12 next set of orders, all of sudden it wasn't B-3 or it wasn't
13 this or it wasn't that because you had to implement a change.
14 If you went from an Oakwood Field to a Middle Ridge, there
15 would be all these references to 80 acre units and we're
16 dealing with 58.74 for a unit. However that form got
17 recycled because we didn't have one for everything and it
18 wasn't consistent, so then most of the...you haven't been in
19 it that long, but most of the comments I make to you guys are
20 form fill issues shifting from one operator or one field to
21 the next that this proposal...99% of the "mistakes" that we
22 find will be solved by what you're talking about. So, in
23 terms of improving the quality of everybody's life and the
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1 product that comes out of this Board, I think it will help
2 because there's just...there's no opportunity to make that
3 mistake over and over again. I mean, you know, I have to
4 check the order every month when I get it to make sure that
5 the interest is not assigned to the applicant by default
6 because my applicants often times are a different...it has to
7 be assigned to the applicant as opposed to the operator. In
8 some units, you know, some companies they always want to
9 assign a designated operator. Well, in some of my instances,
10 the designated operator doesn't have a dog in the hunt, you
11 know, from an ownership's standpoint. So, I have to read...
12 and if we just had...if you just did it one way and was
13 predictable, it will...I think it really would improve the
14 quality of the product collectively and the amount of time
15 that it would take us, you know, to...you know, all of us to
16 interact with the order. I think it's a good idea.

17 JIM KISER: Well, I mean, I don't think I've got
18 much choice but to do it this way. What I need then from you
19 is a generic example of B, B-2, B-3, E and EE, okay.

20 MARK SWARTZ: Do you have an extra---?

21 LESLIE K. ARRINGTON: Well, I don't have any. I'll
22 send...we don't have any with us.

23 JIM KISER: Les, can you just send it to me?

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1 LESLIE K. ARRINGTON: That's not a problem.

2 JIM KISER: Or Bob's office can pull the latest one
3 and send it to me.

4 LESLIE K. ARRINGTON: We can just email him a unit.
5 We'll just email you one.

6 JIM KISER: Okay.

7 BENNY WAMPLER: Give him your email address.

8 JIM KISER: I'll write it down.

9 SHARON PIGEON: He'll take care of you.

10 BENNY WAMPLER: See, I know, don't I, Anita.

11 SHARON PIGEON: Don't even be talking over here.

12 ANITA TESTER: Just leave Les out. You know who's
13 going to do it.

14 LESLIE K. ARRINGTON: Yeah.

15 MARK SWARTZ: Yeah.

16 BENNY WAMPLER: Just watch where both their heads
17 turn when they...when they are stuck on a question.

18 JIM KISER: All right.

19 SHARON PIGEON: Is that it?

20 JIM KISER: I have nothing else to say.

21 MARK SWARTZ: It's just amazing how inflexible
22 young are these days. It's just amazing.

23 BENNY WAMPLER: Thank you all very much. Bob.

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1 BOB WILSON: We need to do the minutes.

2 BENNY WAMPLER: That's right.

3 SHARON PIGEON: You're going to be surprised at how
4 quickly you adjust to this and how much you like it.

5 MARK SWARTZ: You'll love it.

6 JIM KISER: Well, it doesn't involve just me. I
7 mean, my clients do a lot of this work themselves. So, I'm
8 going to have to get them used to it.

9 SHARON PIGEON: Well, since it's going to be
10 emailed back and forth it's going to be easy for everyone.
11 It really is.

12 BENNY WAMPLER: Okay. We...each Board member
13 received the minutes and the results of the hearing of
14 January the 21st. I ask for a motion to approve those or if
15 there's any corrections to them.

16 MASON BRENT: Mr. Chairman, I've reviewed the
17 minutes and they look fine to me. So, I move that we approve
18 them as submitted.

19 BILL HARRIS: Second.

20 BENNY WAMPLER: Motion to approve and second. Any
21 further discussion?

22 (No audible response.)

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

2 (All members signify by saying yes.)

3 BENNY WAMPLER: Opposed, say no.

4 (No audible response.)

5 BENNY WAMPLER: They're approved. Thank you.

6 Thank you all very much.

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9 STATE OF VIRGINIA,

10 COUNTY OF BUCHANAN, to-wit:

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

15 Given under my hand and seal on this the 10th day
16 of March, 2003.

17 NOTARY PUBLIC

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19 My commission expires: August 31, 2005.

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