

IN THE COUNTY OF RUSSELL

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

JULY 17, 2012

APPEARANCES:

**BOARD MEMBERS:**

MARY QUILLEN - PUBLIC MEMBER  
BRUCE PRATHER - GAS AND OIL REPRESENTATIVE  
DONNIE RATLIFF - COAL REPRESENTATIVE  
KEITH ALLEN COMPTON - PUBLIC MEMBER  
BILL HARRIS - PUBLIC MEMBER

**CHAIRMAN:**

BUTCH LAMBERT - CHAIRMAN OF THE VIRGINIA GAS & OIL BOARD

**STAFF:**

RICK COOPER - DIRECTOR OF THE DIVISION OF GAS & OIL AND  
PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD  
DIANE DAVIS - STAFF MEMBER OF THE DGO  
SHARON PIGEON - SR. ASSISTANT ATTORNEY GENERAL

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BUTCH LAMBERT: Okay. Good morning, ladies and gentlemen. It's now 9:00 o'clock and it's time to begin our proceedings this morning. I'd like to welcome everyone to the hearing today. I'd like to remind you that if you have cell phone or other communication devices, I'd ask that you please turn those off or put them on vibrate. If you do have to take a call, please do so out in the hall. At this time, I'll ask the Board members to please introduce themselves beginning with Mr. Harris.

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

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

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

ALLEN COMPTON: Allen Compton, a public member from Dickenson County.

DONNIE RATLIFF: Donnie Ratliff representing coal from Wise County.

BRUCE PRATHER: I'm Bruce Prather representing the oil and gas.

MARY QUILLEN: Mary Quillen, a public member.

BUTCH LAMBERT: Thank you, folks. At this time, we'll enter into our session beginning with the first item

on the agenda is the Board will not receive public comments.  
I have signed up this morning Mitchell Counts.

MITCHELL COUNTS: Good morning. My name is Mitchell Counts. I've been here fairly often for the last two years. I've had some health problems lately and not been able to come. The things that I'd said before and the things that I want to reiterate today is there seems to be such a delay. I'm going to have to say I think it's from the gas companies in making no effort to settle the issues of paying the owners of the gas their money and trying to help them get their money out of escrow. It looks like it's getting down to lawyers having to do it. I thought personally from the beginning that we...that a person such as myself should be able to settle these issues. I own the gas. I can prove that I own it. The Courts have said...agreed with that. It...I don't know who to ask. I know that CNX is not going to put any effort in to helping me get my money. It doesn't seem like this Board is. That's all I got to say. Thank you.

BUTCH LAMBERT: Thank you, Mr. Counts.

BUTCH LAMBERT: Next I have Kathy Salvage.

KATHY SALVAGE: Good morning.

BUTCH LAMBERT: Good morning.

BRUCE PRATHER: Good morning.

KATHY SALVAGE: I'm Kathy Salvage. I live in Wise, Virginia. If we only have a couple of minutes, if someone could let me know or just raise your hand when it's half past. I don't know exactly how long you allow. Okay. So, first I want to say if you don't allow more than two minutes, we spend a great deal of time making decision in our lifetime that last more than fifty years. And for a public discussion about that it should be a bit longer. I'd also like to include in the record that I personally thank Katie Dye for representing the public interest on the Board. And that would be enough said, I think. Previously here in the...let me back up just a second and I will narrow my comments to just one subject this morning in the interest of time. Previously here in the Commonwealth our mail addresses for many, many generations were simply route numbers and box numbers which change meticulously when the 9-1-1 emergency system come in to being that required geographic location names. Everyone's address at that point changed. So, I have seen nothing where the Virginia Gas and Oil Board mandated an address change be searched for by the gas industry. That definitely should be happening. We feel the lack of effort of the gas industry to find people is purposeful in order to keep people from being able to participate or to represent their carried interest. In

addition, the persons whose addresses have changed have no idea that they need to come before this Board in order to make themselves known and to protect their interest. You as Board members know what your opinions on that are. If there has been something that has been passed by this Board, we'd be happy to know about it. If it hasn't been, it should be. It is prudent that they be checking for those current addresses, which give the geographic locations. Thank you.

BUTCH LAMBERT: Thank you. Next I have Juanita Sneeuwaght.

JUANITA SNEEUWJAGT: Good morning.

BUTCH LAMBERT: Good morning.

BRUCE PRATHER: Good morning.

JUANITA SNEEUWJAGT: Mr. Harris, it's good to see you. It has been a while. I'm I getting an echo from here. I think so. Once again, I'm harping on the audit. Are the auditors here today?

BUTCH LAMBERT: They are here.

JUANITA SNEEUWJAGT: Oh, good. I'm looking forward to hearing from them. Do we still have approximately 800 sub-accounts in the escrowed fund? The last time I checked. I didn't do my research for that today. But at last count it was about 800 sub-accounts in escrowed funds. Robinson, Farmer & Cox were given a handful, I

believe, that would be about four or five accounts to work on towards the audit. I feel that this is probably not a fair representation of the number of accounts that they will be auditing and will not show equitable representation for the purpose of that audit. As I recall, the fund paid for the audit. The last I heard about this was about \$28,000. Did that fund come from the escrow interest fund? The last I heard the money was coming to pay for the audit from the interest fund from the escrow money. If so, the payment for audit did not come from (inaudible) of the Board so what was the point in requesting the audit at all if the Board had no intention of a fair representation? Not an accusation. It's just questions that I have. And on entirely different subject matter, I've talked with a number of people...and by the way, did I introduce myself? I'm Juanita Sneeuwaght. I'm president of the committee for constitutional and environment justice. We realize that only the Virginia Governor has the ability and the authority to appoint somebody as a sitting member of the Virginia Gas and Oil Board. We also realize the Board may have some influence on the Governor's decision for that appointment. We hear rumors that a Board member is sought from Eastern Virginia...rumor that a Board member is sought from Eastern Virginia. I'm under the impression, and please correct me

if I'm wrong, that I don't know if there is a mandate in place that a sitting Board member needs to be from the gas producing counties. So, that would be what five...five counties. I know that there are some public members on the Board. We feel that it would be to the advantage of the people and the gas producing counties to have a greater representation and, therefore, hopefully you will have an influence on the Governor's appointment. We have in mind and we're working towards that endeavor. But several politicians and representatives and we have in mind a couple of people that we hope that you would consider and we're going to ask the Governor to consider people from Buchanan County since there is presently no representation from Buchanan County. The two people we have in mind are very intelligent and very qualified and so forth. One person would be Mitch Counts from Buchanan County and the other would be Paul Osborne. So, we'd like you to give that some thought. We'll continue to work towards that end and hopefully that would be suitable for the Board's consideration. Thank you for your time.

BUTCH LAMBERT: The next item on the docket is the Board will now receive the quarter report from the First Bank & Trust escrow agent for the Virginia Gas and Oil Board. Good morning.

DEBBIE DAVIS: Good morning.

TOM DAVIS: Good morning.

DEBBIE DAVIS: My name is Debbie Davis. I am the trust officer at First Bank & Trust Company and no relation to Mr. Tom Davis.

(Laughs.)

TOM DAVIS: Yeah, there was some confusion as to whether this was my wife or my daughter. Not related.

DEBBIE DAVIS: Grandfather.

(Laughs.)

BUTCH LAMBERT: Did you say grandfather?

TOM DAVIS: Yes.

(Laughs.)

TOM DAVIS: Anyway, I am Tom Davis the Senior VP and head of the wealth management division for First Bank & Trust.

DEBBIE DAVIS: We'll start under tab one. I've done a second quarter summary of the activities in the account. We had a beginning balance of \$28,457,985.05. Deposits received for the quarter were \$266,078.54. Interest earned for the money market and the CDARS program was \$37,717.68. From that the fees for us acting as escrow agent was \$7,127.79. We had distributions per the orders for the quarter of \$842,992.66. Audit expenses which are

also paid from the interest earned was \$10,440.36 leaving us an ending balance as of 6/30 of \$427,901...\$27,901,220.46.

SHARON PIGEON: 27 million.

DEBBIE DAVIS: Did I still not do it right? \$27,901,220.46. I'm sorry.

TOM DAVIS: It's just zeros.

DEBBIE DAVIS: Under the next tab is a breakdown of each of the wells or the sub-accounts as we like to call them. Of course we had a couple that are highlighted in the redish pick that were closed for the disbursement orders where the money was completely disbursed out. They're also a few new ones that are highlighted in yellow.

TOM DAVIS: We had a report that there were 800. Do you know exactly how many?

DEBBIE DAVIS: That number I would say is more towards a 1,000 now. I also have a list of the unfunded units where it has been approved for funding that we've not received fundings as of today. Are there any questions on any of those figures or the quarterly summary?

BRUCE PRATHER: I have a question, Mr. Chairman.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: I noticed on your estimated annual income---.

DEBBIE DAVIS: Oh.

BRUCE PRATHER: ---that is for the whole year, the \$150---.

DEBBIE DAVIS: Oh, okay. You went ahead and went back...we hadn't got to that tab yet.

DONNIE RATLIFF: You're ahead of us.

BRUCE PRATHER: I'm I ahead of you. Well, anyway, I noticed that you've got \$150,783 for an annual income.

DEBBIE DAVIS: Yes. That's annual.

BRUCE PRATHER: Okay. If I recall right I believe the president of your company two months ago said that he wanted half of that CDARS account to continue your participation with the escrow account. So,---.

DEBBIE DAVIS: We did rate adjustments, but those are only as the CDs that we currently have mature---.

BRUCE PRATHER: Okay.

DEBBIE DAVIS: --and are reinvested. So, as you will note on the annual yield the rates that we had actually go out through January of 2013. So, we will continue with those rates---.

BRUCE PRATHER: Oh, okay.

DEBBIE DAVIS: --until they are up for renewal.

BRUCE PRATHER: All right. That's good.

DEBBIE DAVIS: So—.

SHARON PIGEON: Have those bottom three already been up for renewal?

DEBBIE DAVIS: Yes. The bottom three have.

SHARON PIGEON: And that's the change that we're going to be seeing as it happens?

DEBBIE DAVIS: Yes. As we go forward.

MARY QUILLEN: Mr. Chairman, I just one question for Debbie. I noticed on one of these unfunded accounts is a GeoMet account. Is...and I don't see another one. They have not been real active. Do you know how far back this goes?

DEBBIE DAVIS: These unfunded units some of those go back to whenever Wachovia was. We've tried to start...I've worked with the staff to start a program so that we can see when the date was established so we'll know if that order expires. Because of the workload with the staff it's kind of hard to go back and keep up with what was previously there.

MARY QUILLEN: But that...do you think that that—?

DEBBIE DAVIS: But I always check when coming comes...would happen to come in as this. If I do not have a date, if we are still okay with these moneys to make sure that the order is not expired.

MARY QUILLEN: Oh, okay. Okay, that just sort of caught my eye because they're not...and it does go back to the---.

DEBBIE DAVIS: Right. Yeah, some of those do go back to when Wachovia was actually---

MARY QUILLEN: Okay. Okay.

DEBBIE DAVIS: ---the escrow agent.

MARY QUILLEN: Thank you.

DEBBIE DAVIS: You're welcome.

DONNIE RATLIFF: Mr. Chairman.

BUTCH LAMBERT: Mr. Ratliff.

DONNIE RATLIFF: Debbie, on the green are those put in gob units or have those orders been closed out and everything has been distributed?

DEBBIE DAVIS: The green is where the order has expired and for whatever reason I guess an agreement has not been made to pay those out. So, I will not...I was directed not to accept any more moneys should there be anymore brought forth. I always copy the staff on any correspondence that I have with the producers if moneys need to be sent back for either a lack of information to where to apply it or if there is any issues.

DONNIE RATLIFF: So, under where normally the company is it's got unlocateable.

DEBBIE DAVIS: I may ask that that the staff kind of step up. It's on page 22 of 23, the unlocateables, if you all might share---.

DIANE DAVIS: What page?

RICK COOPER: 23.

DEBBIE DAVIS: Page 22 of 23.

DIANE DAVIS: The unlocateables?

DEBBIE DAVIS: Those are the ones that I think would---.

DIANE DAVIS: Those have been in there forever. A long, long time ago one of the banks accepted...and it wasn't even...I think it was even prior to Wachovia. Accepted some checks and put them in here under an individual's name instead of a docket number and we haven't ever known what to do with them. We've never been able to figure out where it belongs. Hopefully some day in the disbursement process that will clear itself out. But until then, we don't have a clue where that money goes.

MARY QUILLEN: So, there's no docket to match that up with.

DIANE DAVIS: We know they must have been unlocateables. We know they must have...you know, they just used a name.

MARY QUILLEN: Well, most of those are fairly small.

So, it's not---

RICK COOPER: Yeah, small accounts.

DIANE DAVIS: Yeah.

MARY QUILLEN: ---really---

DIANE DAVIS: And, again, our hopes is somewhere down the line...my bet...I could be wrong, but I will guess that these are probably conventional wells more than likely because of the time period. More than likely the conventional wells. More than likely we will probably never pay them out because they're unlocateables.

DONNIE RATLIFF: Yeah, some of them is .48 cents.

MARY QUILLEN: .48 cents.

DONNIE RATLIFF: \$1.60.

MARY QUILLEN: Yeah. So, it's not a---

DIANE DAVIS: But we just never done anything with it because we don't know what to do with it.

DONNIE RATLIFF: Okay. I understand.

BRUCE PRATHER: Should accounts like this eventually go into the general fund to the State of Virginia. Is that how you get rid of it?

DONNIE RATLIFF: No, they'll---

DIANE DAVIS: I don't know. I can't answer that question. That's a debatable issue as to when they go into---

DEBBIE DAVIS: Those were, you know, brought over to us from Wachovia. So, we've just kind of code them. That's the reason I kind of color coded them to know we have issues and not to accept moneys.

DONNIE RATLIFF: Okay. Thank you.

MARY QUILLEN: But for that small amount it's more...it costs more to maintain them actually than what's in there. That one .48 cents.

SHARON PIGEON: But thank you for keeping these up.

DEBBIE DAVIS: Before we do get into the investment section, I did want to discuss with the Board correspondence that was sent to myself and to Mr. Cooper dated June the 29th from Mr. Shea Cook, Attorney-At-Law in reference to him wanting to assert a lien of 33% of escrowed funds to be released to individuals he has referenced. I know by Board direction at one point he was asking that the checks just be mailed directly to him and the Board had found no...the money needs to be mailed to the individuals named. I was going to seek guidance. We are actually have discussed that we would like to seek our own legal opinion of this to see if it's a valid lien that he's trying to place on these, and where we as escrow agent how we should handle if disbursements do come up for these individuals. That would be an added cost, you know, to us that, you know, we would

like to pass on just to protect us and the account and you as a Board.

BUTCH LAMBERT: Sure. We understand that there would be expenses for you if you have to do that.

DEBBIE DAVIS: Right. That's something above and on, you know, what we would normally...we do have legal counsel for the bank that we can use. If there was, you know, somebody that you all rather us use that's fine. I'll defer that one to Mr. Davis.

SHARON PIGEON: Yeah. But since you're starting to touch on pending litigation, this is perhaps an issue that should be discussed by the Board in closed session.

DEBBIE DAVIS: Okay.

SHARON PIGEON: I would be happy if you have legal counsel that you want me to deal with this issue on I will be happy to talk to them directly.

DEBBIE DAVIS: Okay.

SHARON PIGEON: Most of the names that you have on your letter there have advised us that they are no longer represented and that means under the normal circumstances that a lien would not apply under any circumstances. Whether or not it would apply in this circumstance in any event is questionable. But there, you know, a lot of different facts that go with the different questions.

DEBBIE DAVIS: Right. And I understand that.

SHARON PIGEON: And so we would deal with that in our closed session.

DEBBIE DAVIS: Okay. That's fine. But I just did want to address that with the Board on where we stood that we felt like we should also seek, you know, to protect ourselves with that.

TOM DAVIS: Well, as escrow agent, we are independent. So, we want to have independent legal counsel advise us as to---

SHARON PIGEON: Exactly.

TOM DAVIS: ---what they believe is the proper course.

BUTCH LAMBERT: At this point, and I'll ask for advice from our counsel. Should we...would we be okay at this point since, you know, we don't know for sure how to proceed in advising them to seek legal counsel that we would have to (inaudible)?

SHARON PIGEON: Well, I can't address whose going to pay for it. That's a separate question from seeking legal counsel. Anyone that thinks that they need legal counsel, obviously, should seek legal counsel. Whether or not you have good grounds to charge that back to the Board, as you said, you're independent and you have your own legal

counsel needs as you would as a bank institution under any circumstances. So, those are two different questions and they need to be handled separately.

BUTCH LAMBERT: Okay. I suppose that once that the Board gets some direction from our counsel then we will be back in touch or your counsel can be in contact with Ms. Pigeon. Okay, anything further?

DEBBIE DAVIS: Is there any other---?

BUTCH LAMBERT: Rick...Mr. Cooper, can you fix this echo that's killing everyone of us? Let's try it with the system off, Rick.

DEBBIE DAVIS: Okay. On the next tab under the investments of the account, you will note that in the money market we do have the \$2,441,220.46. That has dropped some under the \$3,000,000. But if you note, the disbursements that has been going out, which there was...at this point there was a CDARS that matured on 7/5 that has brought us back up to where we need to be with maintaining that \$3,000,000 amount in that. As Mr. Prather had asked, the rates are changing as these CDARS come up for maturity and are reinvested. Mr. Davis here is going to discuss more of possible other investment vehicles that we may be able to go through the Board's advisement. With that, I will turn that one over to him.

TOM DAVIS: This obviously is an extraordinary period of time with low interest rates that in...though I'm a newcomer to the industry and in my 49th year it's...it's the first time that I've seen rates this low. It's really an extraordinary period of time. But just to remind the Board when Mr. Hyter was here he was basically going with 20 basis points for the money market and 20 basis points for a six month CD and 30 basis points for one year. 30 basis points being .3, okay. Yesterday I tried to look around see, well, geez, is there something else out there that would number one carry the safety that the Board would want to see and yet where we could maybe earn additional income. Debbie put here on the back page the treasury rates. You have to go out three years to even be the .3. At 30 years you're going to get 257 and I certainly would recommend that...wouldn't recommend it. At some point what will happen to interest rates is when the economy begins to recover more strongly, there will be a greater demand for money and that will send interest rates up. As that happens, there will be a great fear of inflation. What I call the bond vigilantes, which are people like me, millions of us all over the world will drive interest rates up and there's not much...a whole lot that the Federal Reserve can do about it. They control the short rates and not the long

rates though they're trying to control the long rates too. When we start to see that, then, you know, there's going to be more opportunities available to create more income. That will change...require a change in policies to try and get the economy really moving forward. We'll either have a change in policies there or we won't. If we don't then we're pretty much looking at low rates for the foreseeable future. If we see the economy begin to get legs and start to move, you will start to see interest rates at the long end move and then ultimately the short rates will move. The Federal reserves will have to raise rates to take this enormous amount of money that's sitting on the sidelines. When it starts hitting the economy they will have to take some of it out or become inflationary. Consequently, my recommendation would be don't think in terms of going too long. I will tell you what's available out there and it's not extraordinary. You see what treasuries are doing. I'd look at agencies which would be safe. They're not exciting. But I was looking at a Federal National Mortgage Association five year and the Board may not want to go five years. But even with the step up it's 50 basis points for a year and then it goes to 75 basis points for the next year. For the next year it's 1% and then out to 17 it's 2%. That's, you know, 2% going out. Five years is your top right. I looked

at other CDs available throughout the country. There are some higher rates available. If you went out...yesterday there was a GE Capital if you went out one year was paying...two years it was paying 2...excuse me, 1%. If you went out a year it was paying 50. The problem you have with going CDs there is you want them ensured. So, you're only talking \$250,000 pieces and you probably wanted a little less than that so that the interest is covered too. We wouldn't be able to do a whole lot that way. We could do some if you wanted to. So, it's...it's not pretty. It's not right. But the CDARS rights are reasonable. It's just where we are. So---

BUTCH LAMBERT: So, your recommendation is just stay right where we are?

TOM DAVIS: Stay where we are. I don't like it. I'm sure you all don't like it. But it's---

MARY QUILLEN: But for the short-term until---

DEBBIE DAVIS: And the safety.

MARY QUILLEN: And the safety, you know, you just don't know. Things are so unstable right now.

TOM DAVIS: Yeah. I mean, if you want to extend out we could do some things. I'm not sure you want to do that, you know.

MARY QUILLEN: Exactly. I mean, they're just too

unstable and we have no way of even predicating what's going to happen. So, we need to---

TOM DAVIS: I mean, I just gave you my guesses and they were pretty---

MARY QUILLEN: Yeah.

TOM DAVIS: ---either way. I mean, that's what I do is try to figure out what's going to happen in the future.

MARY QUILLEN: Right. Right.

TOM DAVIS: I'm not real confident.

MARY QUILLEN: No, neither is anybody else.

TOM DAVIS: No.

MARY QUILLEN: And that's...that's the problem right now. I mean, I really feel like that...I mean, we'd like to do more, but for the short-term as these are maturing maybe---

TOM DAVIS: Well and we'll watch it and if we see a change occurring---

MARY QUILLEN: Right.

TOM DAVIS: ---then I'll be back here.

MARY QUILLEN: Right. And you don't have to wait the three months. You can come anytime.

TOM DAVIS: Yeah.

MARY QUILLEN: Yeah. Because---

TOM DAVIS: But right now it's just more of the same

and that's true for the foreseeable future.

MARY QUILLEN: Yeah.

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

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: It looks to me like that right now we are physically sound as far as the operations of the account is concerned. What...the main thing that I want to make sure happens is one reason that we got rid of Wachovia was because they were costing us more than the interest we were bringing in on these accounts. I don't see that happening with the CDARS account. I mean, you know, we'd have to take the thing and put a pencil to it and see exactly where our breaking even place is. But right now as far as I'm concerned, as long as we can come close to \$125,000 or \$150,000 we're in pretty good shape. The big problem we've got is that when either your costs or the interest rates goes down...now, if those interest rates goes down to where we're looking maybe at \$60,000 or \$70,000 of our eventual income then we've got a problem too. So, that's...that's basically where I come from on this thing is that I want to make sure that we're not running this thing in a deficit.

TOM DAVIS: Well, right now you're in the positive category.

BRUCE PRATHER: Right.

TOM DAVIS: Predicting the future is always difficult.

BRUCE PRATHER: Exactly.

TOM DAVIS: I'm not going to say that it can't happen. I would like to think it won't happen. You know, there's a lot of things that are going to happen in 2013 that could throw us back into a recession.

BRUCE PRATHER: Oh, absolutely.

MARY QUILLEN: Right.

TOM DAVIS: That's a could happen. It doesn't mean it will happen. I suspect that Washington will address those issues. But---

BRUCE PRATHER: How low do you think the CEDARS interest rates could get? Is that a \$64 question?

TOM DAVIS: Well, we're in a very, very difficult time in which there are a number of banks that are having trouble investing the cash that they have in loans. People...they're just not a great demand for loans. What Mr. Hyter was trying to say to you is we have cash that we can't reinvest. So, it's costing us money. Like I say, I'm in my 49th year. I've never seen it before. I mean, banks are always looking for money. They're not looking for money now. As soon as they start looking for money, you'll see those rates go up.

BRUCE PRATHER: Oh, yeah.

MARY QUILLEN: Uh-huh.

TOM DAVIS: But you have to stay in business too. So, I mean, at 20 basis points and 30 basis points I guess it can go to 0.

BRUCE PRATHER: Yeah.

MARY QUILLEN: Uh-huh.

TOM DAVIS: I guess we could charge you to put your money with us. But, you know, Treasury bills actually did go to 0 back in 2008.

BRUCE PRATHER: Yeah.

MARY QUILLEN: Well, Treasury bills are---

TOM DAVIS: Where...you know, the only time I had ever heard of that happening before was in the Great Depression of the '30s where Treasury bills paid 0. You were paying them to hold your money.

BRUCE PRATHER: See we do have some reserve income in...you know, we've been stockpiling this interest off of these things for some time. So, we do have some cash available to us. But, you know, I'd hate like heck to see this thing go down to nothing.

TOM DAVIS: Well, for it to go to nothing it means that we're in nationally an economic difficulty.

BRUCE PRATHER: Yeah.

TOM DAVIS: And so I don't want to see that either.

BUTCH LAMBERT: Ms. Davis, we talked about the money that we keep available for disbursements. I know that so far this year we're approaching \$2,000,000. So, are we still okay with keeping the \$3,000,000?

DEBBIE DAVIS: And with the way that we have the CEDARS laddered with maturities that are coming in pretty much every month that keeps us at that \$3,000,000. I know we've done a number of disbursements already for July.

BUTCH LAMBERT: Right.

DEBBIE DAVIS: So, you know, I have other---

BUTCH LAMBERT: So, forecasting the rest of the year based on what we've done so far we'll still have enough coming in from the CEDARS.

DEBBIE DAVIS: Yes.

BUTCH LAMBERT: You will, okay.

DEBBIE DAVIS: Because if you'll note in August I've got 1.9 million coming. So, if my reserve fell down, you know, I would be able...and I will adjust those reinvestments based on what disbursements are coming through.

BUTCH LAMBERT: Okay.

DEBBIE DAVIS: And the staff, you know, keeps me abreast of, you know, you're getting ready to see a large

amount coming in. You know, we've got them at the Courthouse to be recorded. They're coming. So, that kind of...I play off of that as I'm deciding on the reinvestments of what's maturing. So, you know, we've got money's coming through monthly until the end of the year. So, you know, we're good to cover any disbursements that are going to come through.

BUTCH LAMBERT: Okay. Good.

DEBBIE DAVIS: And it was also, you know, noted before with the bank if we needed to cash in early they would allow us to do that without charging us a penalty on it.

BUTCH LAMBERT: Uh-huh.

DEBBIE DAVIS: So, you know, if we came to that we would be okay.

BUTCH LAMBERT: Hopefully we get there this year.

DEBBIE DAVIS: So...but, yeah, I think we're good money wise on what we're keeping in reserve.

BUTCH LAMBERT: Okay. Thank you.

DONNIE RATLIFF: Mr. Chairman. If we approve a disbursement today, what's the time line?

BUTCH LAMBERT: That...that depends.

DIANE DAVIS: If you approve a disbursement today, I would be happy to tell you that I have no orders ready. But under normal circumstances, we wait on the transcript

to come back, which takes 30 days usually or 20...20 some days. We have to review it and compare it. We have to request a checks, which takes about a week. We have to send it to the Courthouse, which takes at least a week. 45 days would be great. 60 is usually about what it takes if everything flows. But keep in mind, that means that every piece has to be there. Every W...all the W-9s. The Counties where you have the track IDs required in order to record like Wise, Tazewell and Dickenson. If you don't have tax map numbers in the order you cannot record in those counties. There are variables that affect the time frame. We know it's supposed to be 30. But, again, there were a lot of issues that come up that we don't have that cause a delay.

RICK COOPER: So, to answer your question, 60 days would be really quick. It's 30 days after we receive all of the W-9s, tax ID maps and any of the parts of the puzzle. It's 30 days after we receive all of the information that's required.

BUTCH LAMBERT: And that's one issue that we're dealing with now. We're not getting W-9s and those things back in a timely manner to allow for that process to proceed.

DIANE DAVIS: I have spent, for example, a long time trying to get W-9s on one particular order through the

company, through other people and other companies and I eventually mailed them out to all the parties. There were a few wrong addresses. I just had a phone call from one yesterday, which comes back to, you know, if you have the W-9 in your hand when you walk in here you have one the current address and it eliminates some of the time hold up of processing an order.

DEBBIE DAVIS: And sometimes I'll see a W-9, of course it's a copy, but it's from---

DIANE DAVIS: Ages ago.

DEBBIE DAVIS: Yeah. Years and years ago. People do move. But---

SHARON PIGEON: Some people are holding up their W-9s purposely. So, you know, when that happens there's just---

DEBBIE DAVIS: And, you know, the bank...it's our policy we will not disburse them unless we have that W-9 and it goes back to needing the social security number for tax reporting, you know, and other things, a current address and stuff.

BUTCH LAMBERT: Well, that brings up a good point. You say that is your policy. But is there anyway legally you can go ahead and release those funds and hold the maximum amount of tax out of that?

DEBBIE DAVIS: We will...it was our agreement that we would not withhold taxes and get into that situation.

BUTCH LAMBERT: Okay. So, we have to have a W-9?

DEBBIE DAVIS: Yeah.

BUTCH LAMBERT: Okay.

MARY QUILLEN: So, nobody how aggressively the companies and the Board is in approving disbursements, it's up to the individuals when they submit their paperwork?

DEBBIE DAVIS: Well, I think it's up to the company to make certain that they walk in here with W-9s when they file for a disbursement. I mean, they're the ones that have to file for the disbursement. I think that that is the companies places to make certain that we have an up to date W-9.

RICK COOPER: But to answer your question, if someone withholds a W-9 it can hold up a disbursement order until we get that W-9.

MARY QUILLEN: Right.

RICK COOPER: And it can and does happen sometimes.

DEBBIE DAVIS: And, you know, if the Board would...I don't know what other kind of situations this would cause if we disbursed everybody but the ones that were holding up the W-9. I mean, you might get into more issues to do that.

RICK COOPER: It complicates the calculations quite a bit.

DEBBIE DAVIS: Yes.

DIANE DAVIS: For everyone.

RICK COOPER: It changes everybody's dollar amount.

DIANE DAVIS: Percentage.

BRUCE PRATHER: Well, since these W-9s are with your income tax that goes to the IRS it looks to me like a lot of these companies could save themselves a lot of time and effort if they would hold all of them up until about August or September and then supply all of them because that's what they're doing for the people that they're supplying these tax forms to like the W-9. In other words, it goes into those individual tax filings and whether they're not their holding back on these for the first two-thirds of the year, I don't know. But I can understand why they could and why they might want to.

SHARON PIGEON: Well, the individual has to sign the W-9 form. The individual does.

BRUCE PRATHER: Yeah.

SHARON PIGEON: The company can't do anything if they refuse to. Some of these individuals have refused to provide W-9s even after, you know, an agreement if you will for different reasons, you know, whatever their reasons are

that's their business. But, you know, you may have to consider not putting anything on the docket if the operator has not been able to get the W-9 to start with because otherwise you're just stuck there without being able to disburse to the whole group because it affects the percentages that you all have heard evidence on. So, if you only hear evidence on individuals that have provided a W-9 then the percentages will be based on those individuals and that last leg of this process will not hold up the disbursement.

BUTCH LAMBERT: We're now getting into a topic that's on the docket for number eleven. So, we'll move on and further address the W-9s and that issue.

DEBBIE DAVIS: Which to the best of my knowledge at this time there are no disbursements being held by us because of not having a W-9. At this time I think everything...we're okay on everything but it can cause a delay in the time frame.

BUTCH LAMBERT: Okay. Okay.

DEBBIE DAVIS: Okay.

BUTCH LAMBERT: Okay, anything further?

DEBBIE DAVIS: Is there anything else?

BUTCH LAMBERT: Any further questions from the Board?

(No audible response.)

DONNIE RATLIFF: We appreciate you.

DEBBIE DAVIS: Okay. Thank you for your time this morning.

BUTCH LAMBERT: Thank you.

BUTCH LAMBERT: The next item on the docket is the Board will receive an update from Robinson, Farmer & Cox regarding the escrow audit. Good morning, Mr. Stone.

CORBIN STONE: Good morning. I've got a Power Point presentation, but I've also got a printout of it here. So, we can...if you want to take a break for a few minutes we'll try to set that up or we can just through the---

RICK COOPER: You might want to go through it. We didn't...we didn't bring anything for a Power Point.

CORBIN STONE: Okay. First off, thanks for having me here today. I'll kind of go through the Power Point. Also included in this bound document is a memo to the Board members, which I'm really going to go over everything in my Power Point presentation that's covered in the memo. I also have...I have the state auditor's report just all in a bound document. So, every auditor that you've ever seen at least we've got all of the notes together. But thanks for having me here today. I'll start off on page one on appendix A. You can see I've got a colored slide there at the top. On

that second slide I'll talk a little bit about the account...the escrow account in general. The account grew and, of course, the audit period that we looked at was from 2000 to 2009. During that time frame it grew from \$4,000,000 to \$24,000,000 approximately. Of course, you had an escrow agent hired to manage the account and related sub-accounts and the sub-accounts as we all know are just accounts within the escrow unit for each gas well or unit. I'll flip over to the next page. To give you an idea of the volume, and I think you're already aware of this if you're seeing these investment statements periodically, as of December the 31st, 2009 there were approximately 770 sub-accounts within that account. There were 430 deposits to individual sub-accounts for the month of December of 2009. That's one month. So, we had 430 individual transactions or deposits to sub-accounts in one month. There's a very high volume of transactions in this account. And we were looking at the audit periods of nine years. So, you can...you can multiple 430 deposits times 12 months in a year times 9 years and you can see the volume that we're talking about here. Some of the newer Board members are audited initially. We wanted to verify or take 40 wells or units. When I talk about units we could be talking about multiple wells that are serving one sub-account or even a

gob unit that might have multiple wells serving that gob unit. We took an initial sample size of 40 wells from four gas companies. We recalculated the royalties based on production records, gas prices and their deductions. When we did that, we took a top down approach. We went...we asked them what was your total revenue for the month and then we worked our way down to how much of that total revenue was attributable to this well and then we recalculated...and then we knew the price per unit and we could recalculate those royalty calculations. The royalties were then traced from the gas companies to the sub-accounts or to the escrowed sub-accounts. So, we started our sample with...and this is going back...this is going back 18 months or 20 months or so. We started our sample with the first six wells that we're going to look at. And in those six wells we had five errors or five wells had errors. We found deposits to sub-accounts for the wrong well. We found that gas companies showed they had remitted funds but there was no...no documentation that those funds were ever received by the escrow agent. We found that a unit or a well might become a part of a larger gob unit but deposits continued for that unit outside the gob. Then, of course, any distributions you have from sub-accounts are subjected to those errors because if you are distributing based on the

account balance, if you've got errors in your account balance then your distributions have errors. We did note some minor errors in company calculations minor under payments and overpayments but they really weren't significant. Overall we thought the companies were doing a pretty good job of calculating what those royalty payments were for those six wells that we looked at. Again, it was six wells for a nine year period with monthly production. We actually had more overpayment than under payments in total dollars. So, the companies were just as likely in those six wells to error on the side of sending in too much money. The error rate was too high for auditing purposes. In an audit you like to say we're, you know, 99.8% sure that these sub-account balances are correct. We just...we just couldn't do that because we just had...the error rate was just too high. Errors were largely related through remittance and accounting for royalty payments. Calculation errors were a minimal. That's important because the companies are doing a pretty good job of calculating what those royalty payments needed to be. That was certainly the most complex part of our review. The transmitting of data, getting information and making sure it hit the right sub-account and those sorts of things that's where the errors really...that we really saw. Some

area...other areas of concern that we saw where there were large lags between production and deposit of royalty payments. In some cases as much as two years. You might have production in May of 2004 and you get your first deposit in May of 2006. Some of those lags were explainable. Some of them we just need to close that gap though. There was just a lack of communication and followup if there was a deposit. And you can imagine 430 deposits a month if you're that poor clerk working at the bank trying to make sure they're going into the right sub-account. There's probably not enough time in the day. If you've got one that doesn't have a good number on it and you can't figure out where it goes, you may put it to the side and try and follow up on it. But I think things just kind of got pushed off to the side a little bit. Generally, the controls are...internal controls over the accounting were insufficient and it largely deals to this ramp up that we saw. Again, we went from 4 million to 24 million. That's a pretty big jump in the nine year period. The volume of transactions increased and the complexity of those transactions also increased during that time frame. Flip over to the next page on page four now. At the top you kind of have a picture of just the basic exchange of information that we...that was occurring during the time period. But the gas companies would send

their escrow payments to the escrow agent. There was come production reports, of course, to the gas and oil board and some other data to the gas and oil board. The escrow agent would then in turn report to the gas and oil board. Here are the numbers. We've received the deposits and here are the numbers and here you go. We'll talk a little bit later on how we're going to change that exchange of information to make sure going forward we've got a checks and balances in place because a lot of reliance given...given to...given on the escrow agent. The information to the...the gas companies to the escrow agent was here is the well, our account number, here is the escrow payment and here is our deposit. Not every time do they get the well or the account number. A lot of times they got a check. Sometimes from what we can tell they got information and it wasn't complete, they sent it back to the company and that information either never came back or when it came back way down the road. But it's very difficult to tell what happened eight or nine years ago other than trying to theorize it. So, what we did after we looked at those six...those first six wells determining that we just had an error rate that was too high to continue with an audit. We recommended that you internally request a 100% revenue confirmation from all the gas companies and that's what you did. You ask every gas company, tell us what

you've send us for each well for this nine year period. We said start reconciling those, which is a pretty tremendous task. Start reconciling those confirmations to what's in the accounts and start coming up with your adjustments. Staff has done that. It has taken them quite a bit of time. It's 18 months or so into it. They've identified errors with account balances. They've identified deposits that the gas companies say they sent but we can't find them in the records. They've identified the reverse, deposits in the records that we can't tie to a confirmation from the gas company. They're still following up with those gas companies trying to sort out all of these...all of these differences. Data availability on the second slide on page five of appendix A, down at the bottom. Like I said it's an 18 month process, but data availability is an issue because during that nine year period and now we're out, you know, 12 years from December or January of 2000, we've had company merges and acquisitions. Companies have changed their accounting software. Just times passed and getting those records is harder and harder for the companies and we've lost institutional knowledge. Folks that were working at these companies in 2000 and 2004 and 2005 are no longer there. So, digging into the details becomes...becomes more difficult. The internal

reconciliation findings are basically the same thing. Deposits to incorrect accounts, returned checks to companies, undeposited checks and really just human error. You can imagine if you had your personal account at 430 deposits a months. If you didn't make a mistake that would be very impressive. Staff really has done a...if you can see the spreadsheets they put together the staff of the gas and oil board it's a tremendous amount of information and a tremendous amount of work. Just copying it onto my computer took a long time. It's a lot of data. So, our recommendations really continue that we recommend that staff continue to followup on the unreconciled items with the gas companies. We recommend that you set a threshold because these variances do take quite a bit of time to followup on. I think what you want to do is set a thresh...we're going to start with the largest variances from an absolute value. So, in other words, if the gas company said they sent \$200,000 for this job unit and we've got a \$180,000 that we can account for, that's a pretty large error. Let's go after that one first, the difference of \$20,000. Let's go after those first and try to solve those. We recommend that you work from the largest variances down to the smaller variances down to your threshold. A lot of accounts just don't have a big variance dollar wise, \$10,

\$12 or something like that. You're going to spend more time figuring out why you've got the variance than what the variance is. Step number three, again on page six the top slide, we recommend that the Board authorize adjustments to account based on the work performed. So, if we've clearly got a deposit that was intended for account A and we know it went into account B, then let's go ahead and make an adjustment and move that money back to account A. Once you come up with all of your adjustments based on that information, again, we've requested confirmations from the gas companies. We've received those confirmations. We're matching that up to the deposits for each well. That took place at Wachovia. We've got our differences. We're going to try to figure out what they are certainly for the larger accounts and work our way down. Then we're going to send...then we're going to make our adjustments and we're going to tell the gas companies here is what we found in our internal review and here are the adjustments that we've made. For each one of these wells we want you to review it as well and certify that you either agree with the deposits that we're showing against that well or you give us some proof that our information is incorrect because what you had was some of the confirmations simply weren't complete. They didn't go back to January of 2000. Again, it gets back

to companies were bought and sold, changes in accounting software and that sort of thing. So, by the certification process...it's easy to get a clerk to print off a confirmation and send it in to you, it's a little more involved when you're going to certify that the records that this Board has are correct. It's going to take a little more work on their side to document that all of the deposits are there. So, you're kind of putting it back in their court. Then you will have to authorize a second round of adjustment based on the information that they send you. I think the gas companies will. In our working with the gas companies, you know, they were interested in resolving all of these issues. They weren't interested in this...these issues going forward. Certainly, we found that they were very forthcoming with us when we requested information from them. Moving forward on page seven of appendix A. You know, our recommendations are let's create, and to some degree you kind have already moved in this direction a little bit, create an accounting function that gets data directly from the gas companies and compares that back against what the escrow agent does. It's a checks and balances. Again, 430 deposits a month, if you don't make at least one error that's incredible. So, we recommend that you get information directly from the gas companies hopefully in some sort of

electronic format that makes that reconciliation process a little easier so you don't have to rekey all of that data. But the gas companies...what ideally you would like is production numbers which you're already getting and for them to let you know what the deposits are on each well. The second item moving forward is to request more timely deposits. And I think what we...what we saw if we had a lag, we got production, production and production for months and then we get a big deposits that's for five, six or seven months. That just complicates the reconciliation process. So, what we would say to you is production for May is here. If the deposit came in June or July then you can tie it right back to that production number. It makes it a lot easier when you're trying to reconcile. So, that person...this accounting function would not only say all right we've got a deposit for well A and that matches what hit the bank for well A, but our production for well A for that month was X amount as well. Ideally at the end what you would like to do is take those production numbers and try to estimate what those deposits should be. So, the gas company says our production is X you estimate based on the selling price of gas and the market value of gas, what your royalty payment is going to be and the pooling order and there are a number of variables there. But you estimate it. You're not going

to get it perfect. But if you estimate it's a \$1,000 and a check comes in for \$200 then you want to followup with the company. So, that was really our third recommendation going forward. So, there were three: create the accounting function, request that the companies make more timely deposits shortly after the production month and create models relating to production and volumes that relate production volumes to the escrow payments. We found some neat trends in our analysis in terms of the prices used to calculate royalties and the market price for gas. So, the new exchange...and this is another picture here, I guess, kind of the new exchange of information is that we've got information going both ways. I think it was coming out of the gas companies and it was here you go and here's your stuff. But now we've got to have information flowing both ways. We're going to reconcile that deposit to that well's production and it hit the bank. So, there's going to have to be really a triangle between the gas companies, the escrow agent and the gas board to tie all of this together. Ultimately, the escrow agent is going to do their job receiving those deposits and posting those payments to the wells. But we're going to have a checks and balances on the back end that if they miss something or the gas company misses something and they forget to send in a payment that

you've got somebody kind of prodding them with a stick to get that taken care of. Then the next page is just kind of questions for the board and anything else. And when I...I will mention one thing when you get back to that second reconciliation, I put that second bullet down there. That's page six at the bottom. It says, "Establish sub-account balances as of December 31, 2009 to the best abilities of all parties given the available data." When we're going back to 2000 and 2001, you know, that is not...not complete. We're not going to get a 100% of the data. So, what we're recommending is you get those escrow balances to the best of your ability and to the best of the gas companies abilities to what the balances should be at December the 31st, 2009 and then move forward understanding that we're... give the volume of information and given the time frame that we're dealing with, we're not going to be perfect. I don't think perfection is going to happen, but just do it to the best of everybody's ability and then move forward. You do have process in place on disbursements that you're requiring the companies to once again come before the Board before this disbursement and agree to the balance of that account. So, you do have a process on the back end that hopefully will catch any of the smaller errors. We talk about not looking at accounts with a variance of less than

a \$1,000. We do have a process that hopefully that if we have any variances there we're going to catch before there's a disbursement. So, you're still...even though you're going to go through all of this process and followup on these variances you're still going to have some accounts that don't have necessarily the correct balance. But hopefully we can correct that before the disbursements.

BUTCH LAMBERT: So, Mr. Stone, I guess what I'm hearing you saying is the bottom line is that the RFP for the escrow audit that you were awarded your company can't complete or provide an unqualified opinion based upon the errors that are still existing with the sub-accounts.

CORBIN STONE: Exactly. And what you do...and I talked about the availability of data. But what you do in an audit is you say all right we've got a deposit on this date for this well, now what is the company say we had on this date for this well. Going back to 2000 if the company can't provide a confirmation confirming that deposit then you can't really give an opinion on it. So, that time frame makes it very difficult in the history that has passed.

BUTCH LAMBERT: So, what you're suggesting is that in order to go over that hurdle or complete it, now we take the information that we have...just so I understand---

CORBIN STONE: Yes, sir.

BUTCH LAMBERT: ---we take the information that we have and ask every company to certify that what we have determined or think to be correct at that point December of this year. We have a number that we can move forward with that from December ending this year January to 2010 we'll be able to do an accurate audit of the account.

CORBIN STONE: That's exactly right. You're exactly right. What we want to do is establish those balances to the best of everybody's ability. Like I said, we're not going to be perfect. But to the best of everybody's ability as of some point in time and then move forward with audits from that point in time. And then also have those controls in place that ensure that those balances are being double checked every month.

BUTCH LAMBERT: You spent a few hours looking at the work that the staff to the board has done and the spreadsheets that has been developed. Are there major errors or differences in what the staff has been able to determine as to what's in the account versus the mistakes that might be there or are we talking just a few \$1,000 in accounts or what kind of numbers are we looking at.

CORBIN STONE: Well, the variances are more significant than that. You can't...you can't specifically, you know, say at this point we had, you know,

a gob unit that...actually Wachovia was the escrow agent at the time had deposits of a half million but the confirmation from the company said they had only sent 300,000. So, obviously you've got to followup on that. Is that bad a confirmation from the company or do we have deposits in that gob unit that should have gone to other wells? The opposite is true in some cases. The company said we sent 12,000 and we show a deposit of 10,000. So, you've to followup really on...go back to the company and say all right double check the confirmation that you sent us because we're going to ask you to certify to it and if that's the case then we've got to make an adjustment out of that gob unit and at some point try to figure out where that money...or try to figure out where that money should have gone. Getting back...so, there was some significant errors. I don't want to say there weren't. What I looked at we showed actual deposits at Wachovia were higher than the confirmations from the companies, which indicates to me that those confirmations from the companies aren't complete because I'm sure Wachovia didn't put money from somebody's else's account into your account. So, yeah, you've just got to followup on those variances and then move forward. But they were significant enough that, you know, in terms of an audit you can't say...we always talk in terms of materiality that the

audit...the financial statements are materially correct. That's getting to their correct within 99.5% or so. And you just can't certify to that in this case. They're just too many...too many differences.

BUTCH LAMBERT: You made...you made another comment about if you found, and I think we have, it's my understanding from the staff, of one that had been over deposited by a couple \$1,000 and one that was minus \$2,000 and we just switched those funds. Is it easy to tell where they were overpaid versus...and we're talking about almost 800 sub-accounts.

CORBIN STONE: Yeah. The difficulty is if you're missing a deposit you go back to the company and you say all right we can't find this deposit. Where is it? They either say well that check was cashed on this date. You can go back to that month and try to find it. If you've got a deposit that hit an account and you don't know where it came from, you really don't even know which company to go back to because it could have come from a different company altogether. So, that's...you found the needle in the haystack, you just don't know where it belongs.

BUTCH LAMBERT: Where the needle goes.

CORBIN STONE: So, that's...that was the interesting thing. It's probably easier to followup on

missing deposits than it is to followup on the deposits that have hit an account and you don't know where they've gone. I think what you're going to have to do is create essentially an account for unidentified deposits. So, this account got a \$1,000 deposit and we don't know what it's for. Move that into an unidentified deposits account and then as you find shortages in other accounts fill them in with this money and then, you know, go back to the companies and say we're still short on these 25 accounts or 30 accounts or whatever it may be. They may just make up the differences or you may have to keep looking. The other thing that we've noticed just in our review of six accounts and the staff has noticed this as well is that there were checks that were sent that were never cashed that the company say we sent you that check and there's no record of it ever being cashed. So, you've got a number of those out there too. Those companies should just reissue those checks to the extent the records go back and they can identify them and so forth.

BUTCH LAMBERT: Any other questions from the Board?

ALLEN COMPTON: Mr. Chairman, is this first time that we've had an audit...how many years?

RICK COOPER: 14.

BUTCH LAMBERT: 12?

RICK COOPER: 14, I believe.

BUTCH LAMBERT: 14.

ALLEN COMPTON: If...if this Board could go forward from this date and say we're going to do an audit every year or every two years, would it be simpler to keep up with it then wait 12 years?

CORBIN STONE: Yes, sir. Absolutely.

ALLEN COMPTON: Well, I mean, it's like washing a car. If you wash a car every two weeks it's not hard to clean up. But if you wait six months you can't get it clean. It would be...if you did it on yearly basis I'm sure...I mean, it's a lot more work and everything, but it would be simpler, right?

CORBIN STONE: Yeah. It definitely be quite more simpler.

ALLEN COMPTON: Are governed to have an audit once 12 years or once every year or what is that policy?

BUTCH LAMBERT: I'm not sure. I wasn't around.

ALLEN COMPTON: I wasn't around either.

MARY QUILLEN: I think initially it was a five year---.

BRUCE PRATHER: Yeah.

MARY QUILLEN: ---time frame for an audit. Of course, that was when they were smaller numbers. But it was five years.

RICK COOPER: I think if I recall correctly since this was established in 1990 originally there has only been two audits conducted.

MARY QUILLEN: Right.

BRUCE PRATHER: Uh-huh.

CORBIN STONE: Yeah.

SHARON PIGEON: There was discussion of another audit in 2005 and I know that a lot of us unfortunately thought that that had actually gone forward---

DONNIE RATLIFF: That's right.

SHARON PIGEON: ---and did not realize that that audit had not been completed until we started on this one.

RICK COOPER: And one thing that I would like to point out...recall to the Board, we have implemented some of these measures. The companies are now sending us the electronic data for the escrow accounts, the dollar amount, the royalties and the interest. We're getting that on a monthly basis now. So, going forward it will be a whole lot cleaner and a lot easier to verify.

DONNIE RATLIFF: So, you're getting the same information...Mr. Chairman, I'm sorry. You're getting the same information now as the banks get?

RICK COOPER: Correct.

DONNIE RATLIFF: Do you get copies of the checks?

RICK COOPER: We don't get copies of the checks. We get the check amount though. We have spreadsheets. It's real similar to what you see in here what First Bank & Trust. It's similar to that. Debbie also gets a copy of that also. So, we're...we just implemented that in December of this past year. We still have a few little bumps in the road to get that exactly clean. But going forward, we hope that process will make...we hope the check and balance system work a whole lot better in the future on that.

MARY QUILLEN: When you go back to the 2000 or in the late '90s the technology was not as good. The programs were not as user friendly or that sort of thing. The technology has moved forward so fast over this period of time that it can be done more easily. But at that time what was being done was the best of their ability. Unfortunately, we had a lot of changes in the escrow agents during that period of time. There were changes...several changes of escrow agents. There were...the banks that were bought by different banks, there were merges and there were a lot of things that were going on at that time. So, I'm sure that's not excuse, but it's explain that...why there are so many discrepancies because there were so many different entities that were working with this.

RICK COOPER: You're right, Mary. We have

determined that some of the discrepancies came prior to Wachovia at First Virginia.

MARY QUILLEN: Right.

RICK COOPER: So, we have---.

MARY QUILLEN: Exactly.

RICK COOPER: So, there's going to be X number of dollars that were inherited by Wachovia---.

MARY QUILLEN: Before First Union there was another---.

RICK COOPER: ---that is now inherited by First Bank & Trust. You just can't resolve those. We have identified some of those dollars.

MARY QUILLEN: Right. And then there was a company before First Union. I can't remember---.

RICK COOPER: It was...Tazewell Bank and then Premier Bank and then---.

MARY QUILLEN: Yes.

RICK COOPER: ---and then it went to First Union and then Wachovia.

MARY QUILLEN: So, it just went, you know...and it went from this person to this person to this person.

ALLEN COMPTON: That raises a question. If we stay with the bank...the current bank that we're with and for some reason or another we change banks wouldn't that be a call

for an audit up to that point instead of getting into this same situation that we've been in---?

CORBIN STONE: Well, I think that the...I think the banks are more cooperative when they're still employed by the board.

ALLEN COMPTON: Yeah.

CORBIN STONE: So, yeah, if you change it might be a good idea---.

ALLEN COMPTON: Let's say a year from now we decide to go with another bank---?

CORBIN STONE: Right.

ALLEN COMPTON: ---in order to clear up that bank and what they've done wouldn't that be a time for an audit?

CORBIN STONE: Yeah, I think...I think what we're looking at is just the volume of transactions. The volume and the balance of the account has grown so much that even a five year audit it's really stretching it out a little too far. When we didn't have that much in the way of transactions five years was probably okay. But now I think they said roughly \$28,000,000 in the account. I'd say an annual or an audit every two years is more...a little bit better. Then what you're talking it's essentially what they call a turn over audit. Whenever you turn over custodians you do an audit to that point in time and then

the new custodian given a clean balance to start with. It's not a bad idea. What you want to do is make that change over coincide with the end of a physical year for the account.

MARY QUILLEN: Well, that was the plan in 2005 because there was a change of escrow agents and that was the time that the board had discussed and thought that we were moving forward with an audit, but it didn't---

CORBIN STONE: And really---

MARY QUILLEN: There were some other issues that...at that time as well that---

CORBIN STONE: Excuse me. I'm sorry.

MARY QUILLEN: Some health...personal health issues with some personnel that were intimately involved. So, it just kind of slide by.

CORBIN STONE: The other thing with an audit particularly going forward, what...auditors used to...and still do say this is the account...this is the account balance and this is what we attest to. But at the same time we're spending a lot more time look at the controls that are in place to make sure those balances are correct. So, I think you say we'll go two years, you may want to do some sort of internal control review to make sure once you...once you get everything up and running with these new procedures reconciling with the gas company is sending you to what the

gas company is sending the bank and making sure we have a deposit for every well that has production. Once you do that, then you may want to take time to get a quick review of this is what we saw. We retested some of this information. We found that the controls are working properly because invariably what you find when you put in new controls things come up that you don't anticipate. So, how do you...how do you adjust those. So---

BUTCH LAMBERT: Well, just for information for the board, we have on staff an internal auditor or who audits the processes and systems throughout the agency and he has looked at this system that we have been doing for at least three year times now in the last year and a half. Okay. That will be a continuing process that he does that on a regular basis. Any other questions from the board?

(No audible response.)

BUTCH LAMBERT: Well, Mr. Cox, we appreciate your...Mr. Stone, we appreciate your time and your efforts and certainly the explanation. We'll be back in contact with you at some point in time to further our work.

CORBIN STONE: Well, thanks for having me. I think my card...my business card is in front of the report. If you do have any questions, please any of the board members feel free to call me or email me or whatever.

BUTCH LAMBERT: Certainly. Thank you.

CORBIN STONE: Thank you.

MARY QUILLEN: Thank you.

BRUCE PRATHER: Thank you.

BUTCH LAMBERT: At this time, we'll take a 10 minute break.

(Break.)

BUTCH LAMBERT: Okay, ladies and gentlemen, if you'll go ahead and have a seat we'll resume our proceedings. We're moving to item four on the docket. The Board on its own motion will review election options as discussed in the May hearing. We're going to continue that docket item until August. So, we're calling docket item number five. A petition from EQT Production Company for disbursement of funds and authorization of direct payment of royalties from escrow...from escrow for Tract 3 on behalf of Martha Musick for unit V-2978, docket number VGOB-98-0721-0673-01. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman and board members, Jim Kaiser and Rita Barrett on behalf of EQT Production Company.

BUTCH LAMBERT: Good morning.

JIM KAISER: Good morning.

RITA BARRETT: Good morning.

(Rita Barrett is duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

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

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, if you could state your name for the board, who you're employed by and in what capacity in this matter?

A. Yes. My name is Rita McGlothlin-Barrett. I'm employed by EQT Production Company as contract land agent.

Q. And this is a request for a disbursement from escrow on this unit?

A. Yes, sir.

Q. This unit serves well number---?

A. VC-70---.

Q. VC-702978?

A. Yes.

Q. Have all parties been notified of this hearing as required by statute?

A. Yes.

Q. And what...we're just disbursing from one

tract here today?

A. Yes. Tract 3.

Q. Okay. And is this a partial or a full disbursement?

A. This will be a full disbursement. There are no other tracts in conflict.

Q. And this will close out the escrow account for this entire unit, correct?

A. It will, yes.

Q. And the reason for the disbursement?

A. There's a letter dated June the 7th, 2012 wherein Range Resources relinquishes their claim to the CBM royalty.

Q. And have the figures been reconciled between the First Bank & Trust the escrow agent and EQT?

A. Yes.

Q. And as of what date are these disbursement figures?

A. April of 2012.

Q. Okay. And what percentage should the Board use for the ultimate disbursement here? Is it the figure in the last to...next to the last column of Exhibit...what are they calling this now, Exhibit 1-A?

A. It should be AA.

SHARON PIGEON: AA.

Q. AA.

A. AA. Yes.

Q. And what percentage is that?

A. 100%.

Q. And who should receive these disbursements?

A. Martha Musick.

Q. And have you provided the Board with Exhibits E and EE to this petition to reflect these disbursements or this disbursement?

A. Yes.

Q. And would you ask that any order that the Board execute in this matter direct that the Martha Musick be paid her royalties directly going forward?

A. Yes.

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

BUTCH LAMBERT: Any questions from the Board?

JIM KAISER: Oh. And do we have...have we given them a W-9?

RITA BARRETT: Yes.

RICK COOPER: I would ask do we have a tax map number?

RITA BARRETT: Did I not send you that?

DIANE DAVIS: I wasn't there Friday.

RITA BARRETT: Okay. We can provide a tax map number for that. We have it.

DIANE DAVIS: I can write it on here if you can tell me what it is.

RITA BARRETT: I don't have it written on here, but I have it at home on a plat.

RICK COOPER: That will be fine.

RITA BARRETT: Okay.

DIANE DAVIS: This order is ready if she gives me that.

BUTCH LAMBERT: So, a W-9 have been submitted?

RITA BARRETT: Yes.

BUTCH LAMBERT: Okay. Any further questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: We'd ask that the application be approved as submitted with the late filed tax map ID number for this tract.

BUTCH LAMBERT: Do I have a motion?

DONNIE RATLIFF: So moved, Mr. Chairman.

BRUCE PRATHER AND MARY QUILLEN: Second.

BUTCH LAMBERT: I have a motion and a second. Any

further discussion?

(No audible response.)

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

(All members signify by saying aye.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser. That's approved. We're calling docket item number six. A petition from EQT Production Company for disbursement of funds and authorization of direct payment of royalties from escrow for Tract 3 on behalf of Martha Musick for unit V-5...4522, docket number VGOB-00-0630-0814-01. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman and Board members, Jim Kaiser and Rita Barrett, again, on behalf of EQT Production.

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

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

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, is this again a disbursement request?

A. It is.

Q. And this is for unit VC-4522?

A. That's correct.

Q. And have all parties been notified as required by statute?

A. Yes.

Q. And we're disbursing from Tract 3, is that correct?

A. That's correct.

Q. And this, again, is a full disbursement?

A. That's correct.

Q. It will close out the escrow sub-account or account for this unit?

A. It will.

Q. Okay. The reason for disbursement?

A. There is, again, a letter dated June the 7th, 2012 wherein Range Resources relinquishes its claim to the coalbed methane royalties.

Q. And have your figures been reconciled between the bank and EQT?

A. Yes.

Q. And you've calculated the amount of disbursement as of what date?

A. As of April 2012.

Q. And what percentage should be used for

disbursement and what percentage should the Board use for a final disbursement?

A. 100%.

Q. And that's reflected in the next to the last column on the spreadsheet that we're calling Exhibit AA?

A. That's correct.

Q. And who should receive the disbursement?

A. Martha Musick.

Q. Have you provided the Board with Exhibits E and EE to reflect the facts of this disbursement?

A. Yes.

Q. And would you ask that any order that the Board execute provide that the...Ms. Musick be paid her royalty directly going forward?

A. Yes.

Q. Nothing further of this witness at this time...oh, do we have a W-9?

A. We do.

Q. And do we have a tax map ID number?

A. We do not, but we will provide that. It's the same tract as the previous disbursement.

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

BUTCH LAMBERT: Any questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: We'd ask that the application be approved as submitted with the late filed tax map number.

BUTCH LAMBERT: Do I have a motion?

ALLEN COMPTON: Motion to approve.

BRUCE PRATHER: Second.

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

(No audible response.)

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

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

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

JIM KAISER: Thank you.

RITA BARRETT: Thank you.

BUTCH LAMBERT: We're calling docket item number seven. A petition from EQT Production Company for disbursement of funds and authorization of direct payment of royalties for escrow for Tracts 2, 3 and 5 on behalf of Sam Breeding. This is for unit VC-537521, docket number VGOB-09-0616-2541-03. All parties wishing to testify,

please come forward.

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

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

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

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, again, is this a disbursement request?

A. It is.

Q. This is for the wells serving the unit VC-537521?

A. That's correct.

Q. And are we going to be disbursing from several tracts. It would be Tracts 2, 3 and 4, is that correct?

A. That's correct.

Q. And have all parties been notified as required by statute?

A. Yes.

Q. And is this a partial disbursement?

A. This is a partial disbursement, yes.

Q. And the reason for the disbursement?

A. We have a letter dated May the 21st, 2012 wherein Range Resources relinquishes its claim to the coalbed methane royalty.

Q. And have the figures been reconciled?

A. Yes.

Q. Okay. What's different about this particular hearing?

A. On this one we have a disbursement pending. So, we're unable to show the dollar figure. But the interest in the next to the last column, the percentage, is correct.

Q. All right. So, the only reason we haven't listed a dollar figure like we normally do with these is because there's a pending disbursement, which would change figure one way or the other?

A. Yes.

Q. And, again, what the board wants to focus on when the disbursement is made is that percentage of escrowed funds figure and the next to the last column to the right on the spreadsheet that we're calling Exhibit AA?

A. Correct.

Q. Okay. And those are disbursement...

percentages they should use for disbursement?

A. Yes.

Q. And who should receive this disbursement?

A. Samuel J. Breeding, Jr. and Betty Sue Breeding for Tract 2, 3 and 5.

Q. And have you provided the Board with Exhibits E and EE to reflect the facts of this disbursement?

A. Yes.

Q. And should Mr. Breeding be paid his...should the order direct that Mr. Breeding be paid any royalty due him from this unit directly going forward

A. Yes. I think you said that the payments should go to Samuel J. Breeding, Jr. because his wife has passed away.

Q. I believe that's right. Well, we'll check that with him.

A. He's here.

Q. He's here.

BUTCH LAMBERT: Mr. Breeding.

JIM KAISER: Should the payments just go to you now, Mr. Breeding?

SAMUEL J. BREEDING, JR.: Yes.

BUTCH LAMBERT: Could you come up, Mr. Breeding, please?

MR. BREEDING: I'm sorry?

BUTCH LAMBERT: Could you come up, please?

SAMUEL J. BREEDING, JR.: (Inaudible).

SHARON PIGEON: We understand.

BUTCH LAMBERT: We understand.

BUTCH LAMBERT: Mr. Breeding, could you just have a seat there please and state your name for the record?

SAMUEL J. BREEDING, JR.: Samuel J. Breeding, Jr.

(Samuel J. Breeding, Jr. is duly sworn.)

(Jim Kaiser confers with Samuel J. Breeding, Jr.)

SHARON PIGEON: We need for you to tell us that.

BUTCH LAMBERT: Could you ask him, Mr. Kaiser?

JIM KAISER: Mr. Breeding, should these...should any disbursement including the one that's pending and this one that hopefully is being approved today should that just be going to you as Samuel J. Breeding, Jr. and not including your wife who I believe you have told me passed away last November.

SAMUEL J. BREEDING, JR.: Yes. November the 4th.

JIM KAISER: Thank you.

SHARON PIGEON: Thank you.

BUTCH LAMBERT: Thank you, Mr. Breeding. Thank you, Mr. Breeding.

JIM KAISER: Nothing further of this witness at this

time, Mr. Chairman.

RITA BARRETT: We have provided...Mr. Breeding executed a W-9 this morning and we provided it to Diane.

BUTCH LAMBERT: I have a question and maybe I direct it toward Mr. Cooper and Ms. Davis. Do we know why the other disbursement is pending and what's holding it up?

DIANE DAVIS: I was going to look, but we can't get on line. It probably has already been processed and we're just waiting for it to come back from the Courthouse.

BUTCH LAMBERT: Okay.

DIANE DAVIS: But I can't look because I can't get on line.

BUTCH LAMBERT: We're you able to reconcile what this one is supposed to be?

DIANE DAVIS: Yes, because I've already got this order done. I'll just have to go back and change taking the wife's name off of it.

BUTCH LAMBERT: Okay.

DIANE DAVIS: So, yes, it matched all the way down.

BUTCH LAMBERT: Okay. I think we...Mr. Kaiser you did testify or we had testimony that...the wells that this was coming from.

SHARON PIGEON: The well numbers.

BUTCH LAMBERT: The well numbers.

RITA BARRETT: It's VC-537521.

BUTCH LAMBERT: Just that well?

RITA BARRETT: Yes, sir.

SHARON PIGEON: We have a plat with two wells on it and not the second one.

RITA BARRETT: I think the other one has already been disbursed. Maybe that's the one that we're waiting on.

DIANE DAVIS: If I could get on line I could tell you. I just cannot tell you without getting on line. Rick tried.

(Jim Kaiser and Rita Barrett confer among themselves.)

BUTCH LAMBERT: So, we think the other well has been disbursed, is that correct?

RICK COOPER: Give us one minute here.

JIM KAISER: Yeah, I don't know if it has or not. This is '03 on this well. This is the third time we've filed a disbursement on this well. My guess is this...they're both depending (inaudible) same well.

RITA BARRETT: Oh, yeah, for this particular well.

JIM KAISER: Yeah.

RITA BARRETT: Yeah.

SHARON PIGEON: Well, is it your testimony that it's only coming from one well of production?

RITA BARRETT: Yes, ma'am.

SHARON PIGEON: Because I thought I misunderstood you to say wells plural. So---.

RITA BARRETT: No, it's 537521 and it's Tracts---.

SHARON PIGEON: Yes. 2, 3 and 5. Yeah. Sometimes we have more than one well contributing to a disbursement. I don't know if EQTs had that. But CNX has had that. So, that's why we were wanting to confirm that on the record.

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: I think most of the wells that EQT drilled the second CBM well were all 100% Range units pretty much.

SHARON PIGEON: I think that you all have not had that circumstance.

JIM KAISER: Increased density well.

RITA BARRETT: Both of them.

JIM KAISER: Seems like that was a long time ago.

SHARON PIGEON: You know CNX we've got to be always checking.

RITA BARRETT: Just so you all know I did ask that these exhibits be larger and that they be labeled Exhibit AA. So, hopefully in August that will---.

SHARON PIGEON: Well, you just keep asking and it will happen.

RITA BARRETT: They had already applied for this docket at the time I requested that.

SHARON PIGEON: And we thank you for that.

JIM KAISER: I have no control over that.

BUTCH LAMBERT: We do. Or they can furnish us with a magnifying glass.

SHARON PIGEON: Yeah, we're going to need a sheet, you know, to put over the top of it to read it.

DIANE DAVIS: We can report out that the 2502, the order has been prepared. So, we are either in the point of waiting on the check to come in to record it.

BUTCH LAMBERT: When was that prepared?

DIANE DAVIS: I prepared the order in June.

RICK COOPER: 6/28.

BUTCH LAMBERT: And we're still waiting on a check? Do you think? Are we?

DIANE DAVIS: Probably. She got a whole bunch in last week. I don't know if she hasn't filled it out.

BUTCH LAMBERT: Could you update me with an email of whether or not you have it so I can followup?

DIANE DAVIS: I will.

BUTCH LAMBERT: Okay. Thank you.

DIANE DAVIS: But, again, I do know the order has been prepared. It was prepared by me on June the 28th and I'm betting that a check...we're waiting on the check or she...or it is one that she has done today. She had a whole stack of them.

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: No, sir. We'd ask that this one be approved as submitted.

BUTCH LAMBERT: Do I have a motion?

ALLEN COMPTON: Motion to approve.

BRUCE PRATHER: Second.

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

(No audible response.)

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

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

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

JIM KAISER: Thank you.

RITA BARRETT: Thank you.

BUTCH LAMBERT: We're calling docket item number eight. A petition from Range Resources-Pine Mountain, Inc.

for a well location exception for proposed well 900117,  
docket number VGOB-12-0717-3080. All parties wishing to  
testify, please come forward.

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

BUTCH LAMBERT: Good morning.

(Phil Horn and Gus Jansen are duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Scott.

TIM SCOTT: Good morning.

BUTCH LAMBERT: Good morning.

TIM SCOTT: This is highly unusual.

SHARON PIGEON: For you to be here before lunch.

TIM SCOTT: I know.

PHIL HORN: We made him ride with us today so he  
wouldn't be late.

TIM SCOTT: Yeah, they were sitting there with  
engines running.

BUTCH LAMBERT: Well, we can go ahead and take lunch  
if you'd like.

SHARON PIGEON: We can move somebody ahead of you.

BUTCH LAMBERT: Except we don't have any lunch  
today.

ALLEN COMPTON: He's going to have to back and go  
to work.

TIM SCOTT: That's right.

PHIL HORN

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

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

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

A. My name is Phil Horn. I'm employed as land manager by Range Resources-Pine Mountain, Inc. and one of my job descriptions is getting wells permitting and drilled.

Q. You're familiar with this application, are you not?

A. Yes, I am.

Q. And are you familiar with the ownership of the minerals underlying this unit?

A. Yes, I am.

Q. And those owners are set out on Exhibit B, is that correct?

A. That's correct.

Q. And you've got two wells from which the well location exception is sought today, is that right?

A. That's right.

Q. Can you tell us who operates those wells?

A. Range Resources-Pine Mountain, Inc. operates those wells.

Q. And I believe that Range is both an owner and an operator for this particular unit, is that right?

A. That's correct.

Q. Okay. How was notice of this hearing provided to the parties listed on Exhibit B?

A. By certified mail.

Q. And we've provided proof of our mailing to the Board, is that right?

A. Yes, you have.

TIM SCOTT: That's all I have for Mr. Horn.

BUTCH LAMBERT: Any questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Scott.

TIM SCOTT: Thank you, Mr. Chairman.

GUS JANSEN

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

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

Q. Mr. Jansen, your name, by whom you're

employed and your job description, please.

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

Q. Are you familiar with this application, is that correct?

A. I am.

Q. Can you tell the Board using Exhibit AA why we're seeking a well location exception for this particular unit?

A. Yes. If the Board will refer to the Exhibit AA, which I passed out, you'll see the location of proposed well 900117. It's the well circled in red with the green stippled area. This well has been positioned to maximize the recovery of the remaining natural gas resources stranded with the relationship to the existing offsetting wells. There is no location available that would meet the statewide spacing requirements. In the event the well is not drilled, approximately 84.47 acres of reserves would be stranded.

Q. What's the proposed depth of this well?

A. 5,970 feet.

Q. And the potential loss of reserves if the board doesn't grant our application today?

A. 400 million cubic feet of gas.

Q. And if the application is granted today and its approved, then it would prevent waste, promote conservation and protect correlative rights, is that also correct?

A. That is correct.

TIM SCOTT: Okay. That's all I have for Mr. Jansen.

BUTCH LAMBERT: Any questions from the Board?

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

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: I guess on your map here just southwest of your location there's a deal that says gas well. Is there a well there? Is that a well that belongs to you guys?

GUS JANSEN: That's an old plugged well.

BRUCE PRATHER: It's plugged?

GUS JANSEN: It is a plugged well, yes. It was drilled back in the '70s, I believe.

BUTCH LAMBERT: Any other questions?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Scott?

TIM SCOTT: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

ALLEN COMPTON: Motion to approve.

BRUCE PRATHER: Second.

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

(No audible response.)

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

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Scott. It was approved.

TIM SCOTT: Thank you.

BUTCH LAMBERT: We're calling docket item number nine. A petition from Range Resources-Pine Mountain, Inc. for pooling of a coalbed methane well. This is CBM unit AA-75, docket number VGOB-12-0717-3081. All parties wishing to testify, please come forward.

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

BUTCH LAMBERT: You may proceed, Mr. Scott.

TIM SCOTT: Thank you, Mr. Chairman.

PHIL HORN

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

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

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

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

Q. And you're familiar with this application, is that correct?

A. Yes, I am.

Q. Is this unit located in the Nora Coalbed Gas Field?

A. Yes, it is.

Q. How many acres do we have in this unit?

A. This one has 58.67.

Q. And Range has some of the unit under lease, is that correct?

A. That's correct.

Q. Are we going to dismiss anybody today?

A. Yes, we are.

Q. Can you tell us who that is, please?

A. Eddie Charles who has two tracts. Tract 9 was not leased when we applied for the forced pooling and Verner and Sandra Deel also we want to release.

Q. Okay. Have you attempted to reach an agreement with the other parties listed on Exhibit B-3?

A. Yes, we have.

Q. And how was notice of this hearing provided?

A. By certified mail and also by publication in the Bluefield Daily Telegraph on June the 30th, 2012.

Q. Okay. Thank you. And we've provided proof of the mailing and publication to the Board, have we not?

A. That's correct.

Q. Do we have any unknowns in this unit?

A. No, we do not.

Q. Range is authorized to conduct business in the Commonwealth, is that right?

A. That's correct.

Q. And have a blanket bond on file?

A. That's right.

Q. Now, if you were to reach an agreement with those parties listed on Exhibit B-3 from whom you don't have leases, what would be the terms that you would offer?

A. It would be \$30 per acre for a five year paid up lease that provides for a one-eighth royalty.

Q. Do you consider that to be reasonable compensation for a lease in this area?

A. Yes, I do.

Q. Now, what percentage of the CBM estate does

Range have under lease?

A. 100%.

Q. And that does include Tracts in which Range owns fee simple interest, is that right?

A. That's correct.

Q. What percentage of the gas estate does Range have under lease now that you've acquired some additional leases?

A. 96.05%.

Q. And what percentage of the unit are you seeking to pool?

A. 3.95%.

Q. Do we have an escrow requirement for this unit?

A. No, we do not.

Q. Okay. And you're asking that the parties listed on Exhibit B-3 be pooled, is that correct?

A. That's correct.

Q. And Range be named operator for this unit?

A. That's correct.

Q. Now, if we...if the Board grants our application today and an order is entered, if elections are made by those parties listed on Exhibit B-3 what addressed would be used?

A. Range Resources-Pine Mountain, Inc.,  
P. O. Box 2136, Abingdon, Virginia 24212.

Q. Is that communication for all issues  
regarding this order?

A. Yes.

TIM SCOTT: Okay. That's all I have for Mr. Horn.

BUTCH LAMBERT: Any questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Scott?

TIM SCOTT: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

TIM SCOTT: Mr. Jansen, I'm sorry. I don't have  
anything for Mr. Horn, but I have Mr. Jansen.

BUTCH LAMBERT: Okay. Sorry.

TIM SCOTT: Sorry about that. Not very organized.

BUTCH LAMBERT: Go ahead. That's fine.

GUS JANSEN

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

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

Q. What's your name and by whom you're  
employed, please?

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

Q. And you're familiar with this application as well, is that right?

A. Yes, I am.

Q. What's the proposed depth of this well?

A. 2,450 feet.

Q. And the estimated reserves?

A. 400 million cubic feet of gas.

Q. And I believe that you assisted in the preparation of the AFE that was submitted with our application, is that right?

A. That is correct.

Q. So, what's the estimated dry hole cost?

A. \$188,792.

Q. And the completed well cost?

A. \$420,332.

Q. And does the AFE include a charge for supervision?

A. Yes, it does.

Q. Do you consider that to be a reasonable charge?

A. Yes, I do.

Q. In the event our application is approved, it would promote conservation, prevent waste and protect correlative rights, is that correct?

A. That is correct.

TIM SCOTT: That's all I have for Mr. Jansen.

BUTCH LAMBERT: Any questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Scott?

TIM SCOTT: That's all I have, Mr. Chairman.

BUTCH LAMBERT: For sure?

TIM SCOTT: Yes, sir. Yes, sir.

SHARON PIGEON: One last chance.

BUTCH LAMBERT: Do I have a motion?

ALLEN COMPTON: Motion to approve.

BRUCE PRATHER: Second.

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

(No audible response.)

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

(All members signify by saying yes, but Donnie Ratliff.)

BUTCH LAMBERT: Opposed, no.

DONNIE RATLIFF: I'll abstain, Mr. Chairman.

BUTCH LAMBERT: One abstention Mr. Ratliff. We're

calling docket item number ten. A petition from Range Resources-Pine Mountain, Inc. for pooling of coalbed methane well, this a Lover's Gap-39, unit AA-74, docket number VGOB-12-0717-3082. All parties wishing to testify, please come forward.

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

BUTCH LAMBERT: You may proceed, Mr. Scott.

TIM SCOTT: Thank you, Mr. Chairman.

PHIL HORN

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

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

Q. One more time, Mr. Horn. By whom...your name, by whom you're employed and your job description.

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

Q. And you're familiar with this application, is that correct?

A. Yes, I am.

Q. And is this unit also located in the Nora Coalbed Gas Field?

A. Yes, it is.

Q. Range has drilling rights in this unit, is that right?

A. Yes, we do.

Q. Are we going to dismiss anybody today?

A. No, we are not.

Q. Now, as far as the individuals who are listed on Exhibit B-3 that we notified, have you attempted to reach an agreement with those individuals?

A. Yes, we have.

Q. And how was notice of this hearing provided to those parties listed on Exhibit B?

A. By certified mail and also by publication in the Bluefield Daily Telegraph on June the 30th, 2012.

Q. Have we provided proof of mailing and proof of publication to the Board?

A. Yes, you have.

Q. And do we have any unknowns in this unit?

A. Yes, we do.

Q. And have you provided to Mr. Cooper a letter setting out your efforts to locate these individuals?

A. Yes, we have.

Q. And in your opinion was due diligence exercised in your attempts to locate these parties?

A. Yes.

Q. Now, Range is authorized to conduct business in the Commonwealth, correct?

A. That's correct.

Q. And there's a blanket bond on file?

A. That's correct.

Q. Now, if you were to reach an agreement with those parties listed on Exhibit B-3, what would the terms that would be offered to those individuals?

A. \$30 per acre for a five year paid up lease that provides a one-eighth royalty.

Q. And, again, do you consider that to be reasonable compensation for a lease in this area?

A. Yes, I do.

Q. Okay. What percentage of the coalbed methane estate does Range have under lease?

A. 88.00366667%.

Q. And Range has fee simple interest in some of these tracts as well, is that right?

A. That's correct.

Q. Okay. Now, what percentage of the gas estate are you seeking to pool here?

A. 11.99633333%.

Q. And we just indicated that there were some

unknowns, is that right?

A. That's correct.

Q. What tract or tracts are affected by that?

A. Tract 8.

Q. And what's the percentage that's going to be escrowed?

A. .8273333%.

Q. Okay. Now, we submitted an Exhibit E for that, is that also correct?

A. That's correct.

Q. Okay. And you're requesting the Board to pool the unleased parties listed on Exhibit B-3?

A. Yes, we are.

Q. And that Range be named operator for this particular unit, is that right?

A. That's correct.

Q. Now, if the Board were to grant our application today and the parties would make elections under that particular...under the order that would be entered, what would be the address used for making elections?

A. Range Resources-Pine Mountain, Inc.,  
P. O. Box 2136, Abingdon, Virginia 24212.

Q. And this should be the address for all communications?

A. Yes.

TIM SCOTT: Okay. That's all I have for Mr. Horn.

BUTCH LAMBERT: Any questions from the Board?

BILL HARRIS: Mr. Chairman.

BUTCH LAMBERT: Mr. Harris.

BILL HARRIS: There's...in Exhibit B there are some asterisks by several folks' names. I was just curious as to what that---.

PHIL HORN: Asterisks?

BILL HARRIS: Yeah. Exhibit B, the gas estate, the last four or five pages before your AFE.

SHARON PIGEON: B-3.

PHIL HORN: I don't know. I guess we must have just been verifying something. I didn't notice that. That's just probably some of our internal work, I guess, or maybe Tim did it something.

TIM SCOTT: We did it and I didn't erase. Sorry.

BILL HARRIS: Oh, okay.

PHIL HORN: Oh.

TIM SCOTT: It has no significance whatsoever. I admit it.

SHARON PIGEON: Once again.

BILL HARRIS: I'm fine. Thank you.

PHIL HORN: Thank you.

BUTCH LAMBERT: Any other questions from the board?

TIM SCOTT: I fell on my sword.

BUTCH LAMBERT: You may continue, Mr. Scott.

TIM SCOTT: Thank you, Mr. Chairman.

GUS JANSEN

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

DIRECT EXAMINATION

QUESTIONS BY MR. SCOTT:

Q. Mr. Jansen, again, your name, by whom you're employed and your job description.

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

Q. And you participated in the preparation for this application, is that right?

A. Yes, I did.

Q. So, what's the proposed depth of this well?

A. 2,347 feet.

Q. And what are the estimated reserves?

A. 400 million cubic feet of gas.

Q. And I...as I note from looking at the AFE you participated in the preparation of the AFE, is that

right?

A. That is correct.

Q. So, you're familiar with the well costs?

A. I am.

Q. What's the estimated dry hole cost for this well?

A. \$164,395.

Q. And the estimated completed well cost?

A. \$394,380.

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

A. Yes, it does.

Q. Do you consider that to be a reasonable charge?

A. Yes, I do.

Q. So, in your opinion, if this application is granted today, it would prevent waste, promote conservation and protect correlative rights, is that also correct?

A. That is correct.

TIM SCOTT: That's all I have for Mr. Jansen.

BUTCH LAMBERT: Any questions from the Board?

(No audible response.)

BUTCH LAMBERT: Any---?

SHARON PIGEON: As a followup to Mr. Harris'

question there, I have...actually I have two Exhibit B. One is page one of two, two pages, and then I have one that's four.

TIM SCOTT: Right.

SHARON PIGEON: So, you just divided it into the two estates?

TIM SCOTT: Yes, ma'am..

SHARON PIGEON: All right. So, it really would be a six page---?

TIM SCOTT: Yeah. It's a collective Exhibit B. Yes, ma'am.

SHARON PIGEON: I like the other way better numbered with pages throughout.

TIM SCOTT: Noted.

SHARON PIGEON: That's good. We'll speak of this again.

TIM SCOTT: Okay.

BUTCH LAMBERT: Any question...other questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Scott?

TIM SCOTT: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

ALLEN COMPTON: Motion to approve.

BRUCE PRATHER: Second.

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

(No audible response.)

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

(All members signify by saying yes, but Donnie Ratliff.)

BUTCH LAMBERT: Opposed, no.

DONNIE RATLIFF: I abstain, Mr. Chairman.

BUTCH LAMBERT: One abstention Mr. Ratliff. Thank you, Mr. Scott.

TIM SCOTT: Thank you.

GUS JANSEN: Thank you.

PHIL HORN: Thank you.

DONNIE RATLIFF: Mr. Chairman, do we need a motion on the audit?

BUTCH LAMBERT: I'm not sure what the motion would be.

DONNIE RATLIFF: Accept the recommendations.

BUTCH LAMBERT: Oh, okay. Let's...let's do that right after we get the next agenda item knocked out because there's some topics on this item that might---

DONNIE RATLIFF: Okay.

BUTCH LAMBERT: Okay. We're continuing with

docket item number eleven. The Board will receive an update of Board and Division activities from the staff. Mr. Cooper.

RICK COOPER: There was a couple of items that I wanted to point out that we have tried to recover and find all the old transcripts. Some of these are back in the '80s. We have scanned all of those in and there are searchable pdfs. We will be placing those on the website here real soon. We're testing to make sure everything works real well. So, we tried to find all that we had. We have scanned those and we will be placing those on the website. Secondly, in our efforts to expedite Board matters, we're still working on the E-form system. We still hope to launch this...the E-form system for the Board late fall. We do have a meeting coming up next week. I just wanted to update everyone and let them know that we are still working on that process. We're still working fine. We're on schedule. When we get far enough along we will present that to you. One other item that I wanted to bring up. It's to help expedite the disbursements and to save time with the Board I would request that the Board would authorize that we send out a letter that not to bring disbursements in front of the Board unless the W-9 and tax map numbers are already...no later than the day of hearing. If they're not provided it

really slows down the system. It's very untimely. We really can't process any of the data without that. So, I would recommend that, you know, some type of letter be sent out to all of the operators that no later than the day of the hearing that W-9s and tax map numbers be shown on petitions for disbursements.

SHARON PIGEON: Like doing that that way though people will have received a notice because it will have been placed on the docket if you wait until the day of the hearing it would really be best for people receiving those notices if the paperwork is complete before they're docketed.

RICK COOPER: And I'm okay with that. And the thing that we really need to make sure and it really would help everyone that these W-9s are up to date. We really need that data. It just slows our whole process down and all of our effort is just halted. So, to expedite this process and continue like we're trying to do in the future, we really need that information. I agree in the petition would be the best place for that to be.

BUTCH LAMBERT: Any discussion from the Board on that recommendation?

PHIL HORN: I've comment. We're going to start sending W-9s out with our letters to the oil and gas owners and ask them to fill them out and return them to us.

SHARON PIGEON: You might just add a sentence in your letter that says this will not be processed for disbursement---.

PHIL HORN: Right.

SHARON PIGEON: ---without this document because, you know---.

PHIL HORN: So, hopefully, that will spend things up some because now---.

BUTCH LAMBERT: If it's okay with the Board that we're in agreement, I'll direct Mr. Cooper to draft a letter for my signature stating as such.

RICK COOPER: We'll have that ready to go this afternoon.

ALLEN COMPTON: Do you have a motion or---?

DONNIE RATLIFF: I was just going to put it in the form of a motion, but (inaudible) he can do an internal guidance document.

BUTCH LAMBERT: No, let's put it on the record. Mr. Ratliff, if you'll make that motion.

DONNIE RATLIFF: I'll make that motion.

ALLEN COMPTON: I'll second.

BUTCH LAMBERT: Okay. Any further discussion?

(No audible response.)

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

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Mr. Cooper, if you'll have that drafted for my signature, we'll take care of that. Thank you. Any other updates?

RICK COOPER: The only other item that I would even mention relating to the audit a letter of certification. It's something that the Board needs to think about on what we would need to do and what process we would like to do it. I don't know that we can address that today. But the Board needs to think about...or if you can that's fine. What time line or time frame and that type of thing that we need to do?

BUTCH LAMBERT: Well, Rick, are we at a point where...the lady doing the work are we at a point where we're comfortable with the numbers or is she going to have to do additional work to try to find this information that sends to me missing from the bank.

RICK COOPER: We have developed new contacts throughout the two major companies that really have the deficiencies, EQT and CNX. The contacts constantly change. We developed new contacts. We think we have identified a large majority of the deficiencies. Now, we won't balance

out...like Mr. Stone said earlier, we won't balance out. But we have found that large chunk of items that we think can help create that and yes Shirley Ball who is actually doing she's continuing to do that process. Jason Mumfred who represents CNX said he would have the information in to us no later than the end of this week. Whether that happens or not I can report to you later. But there's several hundred of those.

BUTCH LAMBERT: Well, I guess...I guess that Ms. Ball she could spend probably the rest of her employment or the rest of her life looking for those old records. At what point are you comfortable that she has done all that she can do?

RICK COOPER: I think we're relatively close. I would...I would...I think we're relatively close. One month or two months I would think would be probably as long as she would be doing that type of work.

BUTCH LAMBERT: So, would be at a point where if the Board considered it that we would be ready to go out to every company to ask their certification by the end of this year?

RICK COOPER: I think we're ready to give that data to the companies, yes.

BUTCH LAMBERT: We're ready now or are you saying we need more time?

RICK COOPER: Within...in August we'll have all of that data ready to send out. Within a month from now I would think we would be ready to send all that out.

BUTCH LAMBERT: So, we shouldn't send that information for certification until we're confident we've reached the end and you're saying that's August?

RICK COOPER: Right. I guess...correct.

BUTCH LAMBERT: Okay.

MARY QUILLEN: Should we visit this again in August and let him report on that?

BUTCH LAMBERT: I think so.

RICK COOPER: I think...I think that would be a good idea. Just to mention what Butch said, we could wrestle with this for years and years, but I think we just can't do that. We just need to set a time line and the companies have to verify the accuracy of that and then we move forward on that project.

DIANE DAVIS: And we can mention that some companies have already done that. We've got two companies, Appalachian Energy and Range Resources, we found discrepancies and they have corrected those. One of them was they had put the wrong docket number on all of the checks. It should have been in another docket number. They had sent us a letter verifying that. Appalachian Energy sent us a

letter yesterday verifying the error that we had found in it as being just a docket number wrong on the check. So, I think those we are---

RICK COOPER: Roughly, we almost balanced those accounts out.

DIANE DAVIS: We could...we could...if the Board so ordered, we could correct those right now. Some of the other companies were waiting...the best way we verify this is to get the front of the checks if we can, you know. If the front the checks say docket so and so and that's where we're seeing it, then we ask them is that where you meant for it to be because they're putting it in another docket number. So, that's what we're having to ask them to do is provide us the front of the check and compare them.

RICK COOPER: That's what we're basically waiting on both CNX and EQT both is we need these copies of the checks to verify the dollar amount of where it went. We have found discrepancies. We think the money may be in the wrong account. A lot of the checks probable were sent back...we've identified those recently. We just need verification from the companies to substantiate that.

BUTCH LAMBERT: Okay. And if you'll proceed and report back to the Board in August then we'll take action at that time and what we're going to do as far as requiring

or requesting certification. Anything further?

RICK COOPER: No, that's all.

BUTCH LAMBERT: Okay.

SHARON PIGEON: Rick, could you give us...I know we've got a quarterly report here earlier from the bank but could you give us year to date figures for disbursements?

RICK COOPER: The last I totaled that we had disbursed, I'll round this off, \$1,700,000 as of June the 15th. Now, there has been disbursements here in the last couple of weeks. But we're really close to \$2,000,000. We're real close to that.

SHARON PIGEON: With this six month period?

RICK COOPER: Correct.

SHARON PIGEON: Thank you.

BUTCH LAMBERT: We had a discussion. Mr. Ratliff would like put in the form a motion to either accept or reject the recommendations of Robertson, Farmer & Cox. Is there any further discussion on that presentation this morning?

(No audible response.)

BUTCH LAMBERT: So, Mr. Ratliff, would you---?

DONNIE RATLIFF: Well, the only thing that I would add to the recommendations moving forward on page seven is to establish that...well, it's on page six and seven, establish that sub-account to put the overages in to balance

out the short-fall when they come that he mentioned. But on sub-account...reconciliation of one, two and three that he recommended, I don't see any of that that we couldn't do. Is there?

BUTCH LAMBERT: One which one?

DONNIE RATLIFF: Number...page six and then sub-account reconciliation. He has got three slides, one, two and three moving forward. On the next page.

BUTCH LAMBERT: And what's...oh, all of those...all of those?

RICK COOPER: I guess that's one question that I would have. If we actually get a cancelled check and it verifies the docket number that it went into and it's in the wrong account do we have the authority to move that out of that account into another...into the correct docket location?

DONNIE RATLIFF: Well, step...step three is recommend the Board to authorize adjustments to accounts based on worked performed.

RICK COOPER: Right.

DONNIE RATLIFF: I think that turns you loose to do that.

RICK COOPER: Right. If we can do that he would assist in balancing that. Again, if we get a cancelled

check and it tell us what docket item and what well number it's in and we find out it's in the wrong location and place it back in the proper location, it will help on the balancing if we authority to do that. I'm not sure.

BUTCH LAMBERT: Oh, I think you would. If you can identify that it came into the wrong one.

RICK COOPER: Correct.

BUTCH LAMBERT: Certainly you would be able to do that.

RICK COOPER: Okay. We'll report on that in August. But we have several of those.

BUTCH LAMBERT: And just...I guess just so that the Board knows, one of those recommendations was to create a position that would work internal to...I'm trying to find that---

BILL HARRIS: At the top of page seven, create an accounting function. I don't know if that's the same.

BUTCH LAMBERT: Oh, yeah. Okay, that's it. Just so that this Board knows as of July 1 of this year, the General Assembly approved a \$300,000 budget increase for the Division of Gas and Oil to fund a couple of positions. We're having internal discussions with Rick and myself as to the functions of what that position would be. Even before we saw this, we had already put in for that EWP. That will part

of this position that we hire is to do this kind of reconciliation with the bank and the companies. So, I think we're covered with that recommendation as well. We'll be going...we'll be sending that request up to hire shortly.

RICK COOPER: Shortly.

BUTCH LAMBERT: So, we'll have that covered. Anything further?

(No audible response.)

BUTCH LAMBERT: Okay. So, do we have a motion to accept the recommendations moving forward from Robertson, Farmer & Cox?

DONNIE RATLIFF: So moved.

MARY QUILLEN: Second.

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

(No audible response.)

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

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Okay. The last item on the docket is the review and approval of the June 2012 minutes. Are there any additions or deletions to those minutes?

(No audible response.)

BUTCH LAMBERT: Do I have a motion to accept?

ALLEN COMPTON: Motion to accept.

BRUCE PRATHER: Second.

BUTCH LAMBERT: I have a motion and a second. All in favor, signify by saying yes.

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, folks. Those are accepted. Do I have a motion to adjourn?

MARY QUILLEN: Motion to adjourn.

BRUCE PRATHER: Second.

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

(No audible response.)

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

(All members signify by saying yes.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, folks. We're adjourned.

STATE OF VIRGINIA,

COUNTY OF BUCHANAN, to-wit:

I, Sonya Michelle Brown, Court Reporter and Notary Public for the State of Virginia, do hereby certify that the foregoing hearing was recorded by me on a tape recording machine and later transcribed by me personally.

Given under my hand and seal on this the 15th day of August, 2012.

---

NOTARY PUBLIC

My commission expires: August 31, 2013.  
My Notary Registration No.: 186661