

IN THE COUNTY OF RUSSELL

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

DECEMBER 15, 2009

APPEARANCES:

**BOARD MEMBERS:**

KATIE DYE - PUBLIC MEMBER  
MARY QUILLEN - PUBLIC MEMBER  
DONNIE RATLIFF - COAL REPRESENTATIVE  
BRUCE PRATHER - OIL REPRESENTATIVE

**CHAIRMAN:**

BUTCH LAMBERT - CHAIRMAN OF THE VIRGINIA GAS & OIL BOARD

DAVID ASBURY - DIRECTOR OF THE DIVISION OF GAS & OIL AND  
PRINCIPAL EXECUTIVE TO THE STAFF OF THE BOARD

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BUTCH LAMBERT: Good morning, ladies and gentlemen. Our Board member has arrived. We now have a quorum. We can begin our meeting this morning. I'd like to start the meeting...this hearing this morning by asking everyone to please turn off their cell phones and pages or at least put them on vibrate if you have those. These proceedings are being recorded and those telephone ringings and beepings kind of impact our recording. So, please have respect and turn those off. At this time, I'd like to ask each Board member to please introduce themselves. I'll begin with Mrs. Dye.

KATIE DYE: Good morning. I'm Katie Dye. I'm a public member from Buchanan County.

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

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

DONNIE RATLIFF: Donnie Ratliff with Alpha Natural Resource representing the coal.

BRUCE PRATHER: I'm Bruce Prather. I represent the oil and gas for the Board.

DAVID ASBURY: Good morning. David Asbury. Principal Executive to the Staff of the Board and Director of the Division of Gas and Oil.

DIANE DAVIS: Diane Davis with the Division of Gas and Oil.

BUTCH LAMBERT: Thank you. At this time, if you'll look on your docket. We're going to move directly to docket item number thirty-seven. We have a Board member that has to leave this morning at 10:30 or 11:00, Donnie?

DONNIE RATLIFF: Yes.

BUTCH LAMBERT: We would like to get to this item while we still have a quorum here today. So, item thirty-seven on the docket is the Board on its own motion will discuss the awarding or request for proposal of the RFP relative to an audit of the Board's escrow account. Each Board member should have received in the last month copies of the RFPs. Is there any discussions on those RFPs before we take a motion?

DONNIE RATLIFF: Mr. Chairman, was these the only three responses that we had?

BUTCH LAMBERT: No, sir. We had five responses. The Committee at the Big Stone Gap office reviewed those five. Two were not allowed because they did not meet the requirements of the RFP. Is there any further...any discussion?

KATIE DYE: Yes, I have a question. When we put the RFP out the first time, did we have in it the

requirement to register through EVA?

DAVID ASBURY: Yes, ma'am.

BUTCH LAMBERT: We did. Yes.

KATIE DYE: We did?

BUTCH LAMBERT: Yes. We did.

KATIE DYE: So, the one candidate was registered the first time that wasn't this time?

BUTCH LAMBERT: No. That was an error on the review committee that missed that one. That was not registered with EVA.

SHARON PIGEON: That was the RFP that was ultimately recalled.

KATIE DYE: Right.

SHARON PIGEON: That was one of the mistakes in it. There were, I think, more than one.

BUTCH LAMBERT: There was more than one with several of the folks that bid.

KATIE DYE: Well, I think that my concern was, you know, that this individual looked like it should potentially be the most qualified to perform this audit. I did notice like one here, we have travel expense, and earlier we had discussed that, you know, we couldn't pay travel expense.

BUTCH LAMBERT: Uh-huh. You're correct.

KATIE DYE: So, would that have not disqualified

this one?

BUTCH LAMBERT: It met---.

KATIE DYE: This is the one from Goodman & Company.

BUTCH LAMBERT: Uh-huh. At that time, we...that may be one that this Board would need to qualify during our vote. Any further discussion?

KATIE DYE: One of the things that I did notice that, you know, I think maybe we should bring to the Board's attention is this one with Corbin Stone from the RFP to the second one, you know, it has increased in costs like \$13,470. I was just curious about that. Was there any reason for that? Any explanation?

BUTCH LAMBERT: Mrs. Dye, did you keep your previous one from that one or did you---?

KATIE DYE: I don't have it with me, but I have the information.

BUTCH LAMBERT: Could you elaborate on what discrepancies you saw as far as the increase in costs?

KATIE DYE: I don't know...what I was curious about was why the increase in costs, I guess, of \$13,000.

BUTCH LAMBERT: That should have been set out in his...in the bid that that company has submitted and you should have been able to pick up on the differences in the costs.

KATIE DYE: Well, I didn't have my first one. I just picked up on it from other information that we received. I didn't have the copy of the first RFP or the first response.

SHARON PIGEON: I don't know, in response directly to your question, what the answer is. But when we had the decision to recall the first RFP, part of the reason was because we felt the information was not clearly stated in that. It is perhaps a result of the information being more clearly stated that they were able to understand our duties would be greater. I'm not... you know, I didn't compare the two of them.

KATIE DYE: So, you're thinking that would have increased the costs under hours possibly?

SHARON PIGEON: Well, I'm just saying...possibly. I didn't look at the two. You know, I didn't put them down side by side, but that's one the reasons that the original one that there was a feeling of a need to recall it in the first instance because the discrepancies between the lower proposals and the highest one was so great, we felt like someone surely didn't have the right information.

KATIE DYE: Okay.

BUTCH LAMBERT: Further discussion?

(No audible response.)

BUTCH LAMBERT: Do I have a motion before the Board?

DONNIE RATLIFF: Mr. Chairman, I'd move that we accept the proposal put together by Roger, Farmer, Cox & Associates.

BRUCE PRATHER: I'll second it.

BUTCH LAMBERT: I have a motion before the Board. Did I have a second?

BRUCE PRATHER: I'll second it.

BUTCH LAMBERT: Yeah. Seconded it by Mr. Prather. Any further discussion?

KATIE DYE: Are we going to do a poll vote?

BUTCH LAMBERT: Roll call?

KATIE DYE: Yes.

BUTCH LAMBERT: Yes, ma'am.

KATIE DYE: Okay.

BUTCH LAMBERT: Any further discussion?

(No audible response.)

BUTCH LAMBERT: Madam recorder, would you poll the Board, please?

COURT REPORTER: Katie Dye.

KATIE DYE: My vote is for---.

SHARON PIGEON: You have to vote on this motion that's before the Board.

KATIE DYE: Oh, the motion. My vote is no.

COURT REPORTER: Donnie Ratliff.

DONNIE RATLIFF: Yes.

COURT REPORTER: Bruce Prather.

BRUCE PRATHER: Yes.

COURT REPORTER: And Butch Lambert.

BUTCH LAMBERT: Yes. The motion passes. Mr. Asbury, I would ask that you contact the successful candidate.

DAVID ASBURY: Yes, sir. Is it the Board wishes to begin this audit January?

BUTCH LAMBERT: January 1.

DAVID ASBURY: January 1?

BUTCH LAMBERT: Yes.

DAVID ASBURY: All right, sir.

BUTCH LAMBERT: At this time, I'd like to go to agenda item number two on the docket. The Board will consider recommendations for a standardized clear-language royalty payment statement for parties in escrow. I would ask Mr. Asbury if you have those that you can pass out to the Board members for their review.

DAVID ASBURY: I do, Mr. Chairman.

(David Asbury passes out information.)

BUTCH LAMBERT: Mr. Asbury---?

DAVID ASBURY: Yes?

BUTCH LAMBERT: ---a couple of months ago, I think, the Board asked you if you would work with members of VOGA to produce a standardized language for royalty payments. Could you give us a report on that, please, and go over the sheet that you just passed out?

DAVID ASBURY: Yes, sir. Following the Board's instructions, we did contact VOGA and worked with Jerry Grantham, who in turn, worked with his members of VOGA. We also looked at different statements that we were aware in the Division and we do provide the information that each statement has the following items: Production date, the product, the price per unit of measurement typically given in gas-mcf and btu value, the interest...the ownership interest in the well unit, the volume of a product sold from the unit, the gross value and revenue from the well, which is the product of the volume times the price, taxes applicable for the production, also to detail deductions - post production costs to include gathering, processing, compression, transportation and marketing and a net value/revenue from the gross revenue minus the taxes and deduction.

BUTCH LAMBERT: In your discussion, did you talk about how this would be shown on the statement?

DAVID ASBURY: This is not uncommon as far as royalty statements or working interest statements. A lot...a majority of the gas industry statements that we are aware of are presented in this manner.

BUTCH LAMBERT: Did you talk about how it would look?

DAVID ASBURY: Yes.

BUTCH LAMBERT: Okay. And how---?

DAVID ASBURY: In columns...in column manner. The descriptions of each one of these items as described.

BUTCH LAMBERT: And did you all put together a format that we could look at?

DAVID ASBURY: Not anymore than this statement here. No, sir.

BUTCH LAMBERT: Okay.

BRUCE PRATHER: Mr. Chairman---

KATIE DYE: Mr. Chairman, I have a question.

BUTCH LAMBERT: Mrs. Dye.

KATIE DYE: When we're looking at these deductions down here, are they going to be shown as itemized as separate like the gathering, processing, the compression or will they all be lumped together?

DAVID ASBURY: It's recommended that they're all lumped together and designated as deductions with no

breakdown.

BUTCH LAMBERT: I think that's one of the areas of concerns that we've been addressing is they couldn't...the royalty owners couldn't tell what those deductions were and broken out. Could you tell us about that discussion that you had?

DAVID ASBURY: It could be possible to break these out by column if the Board so chooses and recommends that. Again, across the Board statewide that would take sometime maybe for accounting changes to represent that. Each different gas operator has their own accounting systems and accounting presentation. That may take some time to do that, but if the Board requires it it can be done. You may...I'd offer that you may want to include testimony from VOGA. Mr. Grantham...I think Jerry is here this morning. Maybe he might have additional input.

BUTCH LAMBERT: Mr. Grantham, could you come forward and address those questions for us?

JERRY GRANTHAM: The list of items that we presented to be included on force pooled statements is consistent with the presentation that we make in virtually all of the private contracts, statements that we have. As you know, we're talking about a number of different industry companies that are working here in the Commonwealth and

trying to standardize the statement that...so that every statement looks exactly alike. It is going to be difficult to do purely from a systems accounting standpoint. That's the feedback that I've gotten. The goal of this was to not necessarily have a statement that every...a statement would be perfectly identical because realistically that's probably not feasible. But to have a list of the items that should be included on each of those statements in some format. Typically, on most of the statements from top to bottom would be reading from left to right on the statement is how most statements are set up that I've seen. I did review, I believe, everybody's statement to look at this. Currently, with all of our private contracts, deducts are included in one item as we propose it would be here. I think what we could would be to...and, again, we included the items that had been...gathering, processing, compression, transportation and marketing that have been included in the Board orders since the early '90s. Those are the ones that have been covered. As far as trying to break each of those out as an individual line item, I think that's going to be extremely difficult to do from the industry standpoint and certainly not something that we're currently doing in private contracts. I think that going in and being able to identify which of those items are included in the deducts,

the industry could do. But they're, I mean, specifically saying this portion is transportation versus this portion is compression I think is going to be difficult to do.

BUTCH LAMBERT: So, what I heard you say is you could break it out and not by what the deduct is but what the charge is for?

JERRY GRANTHAM: No, what I was saying was if, for example, Range had a statement and we may not be charging all of these items. In fact, we aren't. What we could do would be highlight the ones that occurred on our statement, whether it was gathering and processing or whatever they are.

BUTCH LAMBERT: Okay. I understand.

JERRY GRANTHAM: Trying to break out individually over a fairly long time frame of the things like depreciation on these items, that's going to be difficult to do, and not something that we're doing with any of our private contracts.

BRUCE PRATHER: I have a question.

DAVID ASBURY: And as I understand, Mr. Grantham, we're dealing with more than twenty operators here that could eventually have or realistically have twenty different accounting systems with different softwares and different breakouts and things of that nature.

JERRY GRANTHAM: Absolutely. I mean, the overall format scheme when I looked at them were relatively similar, but each system as it's own nuances. I'm not an accountant. So, I can't probably sit up here and tell you what they are. But, clearly, I think each system and each company's system is going to have a different kind of display. I think the overall format of what we proposed here could be shown on the statement.

BUTCH LAMBERT: Okay.

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

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: Jerry, on the deductions, these are operating costs. I've got an interest in some oil and gas wells. The deductions are all lumped on this one. I'm in the working interest.

JERRY GRANTHAM: Well, this is---

BRUCE PRATHER: And the reason for it is, you know, it's a tax deal for me on these operating costs. But on these royalty owners it's not. They can't deduct it. So, I'm wondering why they would need all of this.

BUTCH LAMBERT: Mr. Prather, we can't hear you on this end. Could you--?

BRUCE PRATHER: Oh, okay. Well, is this thing working?

BUTCH LAMBERT: That's just...that's just for the recorder.

SHARON PIGEON: That's only for recording.

BRUCE PRATHER: Okay. Well, do you want to start again?

KATIE DYE: Please.

SHARON PIGEON: Yes, we didn't hear any of that.

BUTCH LAMBERT: Please.

BRUCE PRATHER: Okay. I thought this thing was on.

SHARON PIGEON: And I'm sure that no one out there heard.

AUDIENCE MEMBER: No, we can't hear.

AUDIENCE MEMBER: Right. Do any of them work?

SHARON PIGEON: They only record into that recording device. They're not for amplification. That's why we all need to speak up.

BUTCH LAMBERT: Yeah, I'd ask that everyone to please...please speak up.

BRUCE PRATHER: This deduction items that you have on our paper here, these are essentially operating costs that the operator has. Like I say, I've got the working interest in some wells. My deductions are lumped. If I need to know what it is, I can go to the operator and I can get them. The thing about it is the reason that...it was

absolutely a necessity for these royalty owners to have this information...I mean, the thing about it, it just seems to me that since they can't write it off tax wise, it's just giving you information. The only thing that I might add to it would be that you might be able to put down the costs and then down at the bottom of the thing maybe have a one, two or three designation that would say this is a gathering cost and this is this and this is this. You might be able to do something like that, which wouldn't affect your computer system.

JERRY GRANTHAM: I agree with what you're saying. I think we need to distinguish here between an operating costs and a post production cost. We've had discussion on this. Operating cost is the cost to get the gas from the bottom of the wellbore to the top of the wellbore to the surface. No royalty interest whether they are in a private contract or a force pooled situation is ever charged that. These costs are purely the cost to move that gas from an area where there is no market to a market.

BRUCE PRATHER: To a market.

JERRY GRANTHAM: To a market. To enhance the value of the gas. The Board has heard a lot of testimony over that. I think the AG ruling that we had earlier this summer, you know, supported that concept. So, what we've

tried to do here is make sure that all of these statements have at the very least...an in some cases there's more here than what we have in 95% of the royalty that's being paid out there, which is through private contracts. You know, we're talking probably about 5% of the royalty...somewhere in that Range that we're talking about here. So, what we've tried to do is be very consistent and even go above and beyond that to show the lime items that occurred in those private contracts.

BRUCE PRATHER: Why couldn't we just say these are post production deductions...post cost deductions?

JERRY GRANTHAM: Well, we do have deductions and it says post production costs to include gathering, processing, compression and transportation.

BRUCE PRATHER: So, they're post production deductions is what they are.

JERRY GRANTHAM: Yes.

BRUCE PRATHER: That would be the big lump of it if you wanted to put it that way.

JERRY GRANTHAM: Yes. I mean, if we want to change the terminology here, I don't think that would be an issue.

BRUCE PRATHER: Yeah. Yeah. That might be the easiest way to handle this thing since we're talking about charges.

JERRY GRANTHAM: But I think Mr. Prather is correct from a royalty standpoint. From a working interest standpoint, he needs to know what the operating costs are in a well for tax reasons. I'm not a tax attorney either, but from a post production standpoint that you're enhancing the value of the gas, I don't believe that there's a necessity for any tax reasons to break these items out.

KATIE DYE: Mr. Chairman, I have a question.

BUTCH LAMBERT: Mrs. Dye.

KATIE DYE: So, Mr. Grantham, what you're saying is if these royalty owners want to do depletion on their gas interest that even though this all lumped together their CPA will be able to figure all of this out?

JERRY GRANTHAM: I'm not a CPA.

KATIE DYE: I'm not either.

JERRY GRANTHAM: But I believe that is correct. I don't believe that the CPA would need to know what the line items would be on those deducts to still take depletion because depletion is going to be either take...I think it's taken off the actual volume and not off of the deduct or a price. So, I believe that still could be done by the CPA, yes.

KATIE DYE: Well, I just have one---.

BRUCE PRATHER: It's 15% of the gross.

KATIE DYE: Excuse me.

BUTCH LAMBERT: Mrs. Dye, go ahead.

KATIE DYE: I just have one further comment. I know from my own experience that a lot of times when you look at all of these post production costs lumped together, for example last month, 44% was taken from what I received under post production costs. If it was broken down, I think maybe the royalty owners could understand that this is not all transportation.

JERRY GRANTHAM: I understand that and certainly you're saying 44% compared to price. Part of the problem is is we're in a pretty low pricing environment right now. If you looked at it and compare it to the amount of gas produced, it should be a constant number every month. It shouldn't vary. Obviously, it is going to vary with price. I mean, it's something we deal with everyday is the big fluxation in gas prices.

KATIE DYE: I think, you know, when a lot of royalty owners look it and they look at that high percentage, you know, they do have concerns. And if it's not broken down as gathering, compression and all of that, you know, they're just looking at it as total transportation.

SHARON PIGEON: I think she's making a good point.

I mean, that is part of the reason to do the reformation here on the deduction statements in the first place to show that those are different factors...different costs involved.

KATIE DYE: Yes.

SHARON PIGEON: And to have just a total deduction. They can back that out by looking at here's the beginning and here's the end and putting a label on it that generally covers everything isn't particularly helpful. I would suggest that if these are terms that are anticipated that we not label the ownership interest as interest because interest denotes in most people's mind the interest payment that escrow agent is putting...I would use ownership or something or percentage or something like that. I wouldn't use interest. I don't want us to ever have to come back and reread the transcript just to know that that didn't mean an interest payment.

BUTCH LAMBERT: Any other questions from the Board for either Mr. Prather or Mr. Asbury?

BRUCE PRATHER: I've got a statement. There are two dates involved with these royalty statements and one is the check date and the other is the production date. The royalty owner should be aware of the fact that there is always a lag between the production date and the check date of about a month or two. So, I'm not sure whether that

should be on here or not. It would be on your stub anyway. But if you throw your stub away, then you don't have any references to when that check date was. In my instances, I use that check date quite a bit referring to the production date.

JERRY GRANTHAM: You're correct. There is a lag between the production date and the date that the check is issued. We put the production date on there because typically that's how everything is tracked from a---

BRUCE PRATHER: Right.

JERRY GRANTHAM: ---production standpoint. I don't know for a fact, but I think most checks will have a date on them. I don't know if the---

BRUCE PRATHER: Well, the stubs do too usually.

JERRY GRANTHAM: ---stub has the date on it. But I think in our instance it does. I didn't really look at that, but I think that probably would not be an issue putting the date of the check on the stub also for most people.

BRUCE PRATHER: Yeah. I mean, it's just a point of reference.

JERRY GRANTHAM: Yes.

SHARON PIGEON: Jerry, is it common practice to treat the date of the sale as the production date, you know,

as opposed to the date it comes out of the ground to the wellhead?

JERRY GRANTHAM: Well, the production date is going to be for a month and that gas in most cases would be sold at some point during that month for the production. I mean, it's not a physical one day time frame. It's a monthly time frame for the amount of gas produced in that monthly period. Did that answer your question?

SHARON PIGEON: So...well, so, I think you're telling me the production and the sale are going to take place 90% of the time within the same month.

JERRY GRANTHAM: Within that same month. I think that should be the case, yes.

SHARON PIGEON: Okay.

BUTCH LAMBERT: So, I'm still hearing concern from the Board members. I've still got a little bit of hesitation myself and why we are at this point in having this discussion with coming up with a standardized form and I bring us back to the deductions. I know this Board heard a lot of concerns from the citizens that they couldn't tell what was being deducted as post production costs and that's why we're here. So, is there any way that we can...we can break those out other than just listing it as a line item that this was gathering and this was production. I know

Mrs. Dye still... she has raised a concern. I don't think she got an answer that she was looking for either.

KATIE DYE: Well, I think it would clarify a lot of things if we knew exactly what we were being charged for compression, for gathering and for those things. You know, I'm sure the company has to keep separate records on, you know, what you charged for compression and gathering and everything for your tax purposes or I would assume that you would.

JERRY GRANTHAM: And that's the question I probably can't answer sitting here today. You need to talk some of the industry companies to see if that can, in fact, be broken out or whether...and, again, I'm not an accountant or a tax person whether the total gathering of a product in a gathering system with it being a pipeline and compression is lumped together and not distinguish those individual parts of it. I don't know the answer to that sitting here, but would be happy to meet with the other industry companies and see if that's the case and if that can be done.

KATIE DYE: I just have one more question. What would come under marketing? Explain that to me.

JERRY GRANTHAM: There are costs associated with actually finding a buyer for the gas. Those would include people's times to go meet with the State of Richmond

or...the State of Virginia is a big buyer...the biggest buyer of gas. They have marketing people that buy gas and gas companies have marketing people that buy gas and the gas companies have marketing people that sell the gas to them. So, there's costs and expense associated with that. It's usually...at least in the instances I've seen it's a pretty small amount because it reflects the cost to actually find a market for the gas.

KATIE DYE: So, is your marketing fees like per mcf?

JERRY GRANTHAM: It would be...yes, per mcf. Yeah, per mcf.

KATIE DYE: I mean, mcf. I'm sorry.

JERRY GRANTHAM: Typically, any of those fees would be broken out on a per mcf basis, yeah. It's all tied back to the volume.

KATIE DYE: So, you already have those figures that would be broken out?

JERRY GRANTHAM: Do I have those figures?

KATIE DYE: I mean, the companies would.

JERRY GRANTHAM: I probably can't sit here and speak for all companies and say they would because I don't know the answer to that. Certainly, you know, some companies would be able to break that out and say it is so

much per mcf for the marketing side of it, yes.

SHARON PIGEON: Jerry, if you had a participating operator, someone who elected to participate on any of your wells, you would have a certain obligation to provide them information. Would you be able to provide them gathering, processing and compression separately?

JERRY GRANTHAM: The statements I seen and as a participating...a participant on a working interest basis where another company is an operator would be that I don't get the detail of that broken out amount. It comes in as zero.

SHARON PIGEON: You have not been receiving that as a participant?

JERRY GRANTHAM: In most cases, no, I do not.

SHARON PIGEON: In some cases?

JERRY GRANTHAM: In some cases, yes.

BUTCH LAMBERT: Any other discussion?

(No audible response.)

BUTCH LAMBERT: In light of the questions, concerning deductions, I think...and I'll ask the Board, my recommendation would be we ask you to go back and work with Mr. Asbury again and see if you can come to some resolution about those deduction costs being broken out. I don't think we need a vote on that, but is that just a recommendation

from the other members of the Board?

DONNIE RATLIFF: Mr. Chairman, if we could, let's adopt this today and set thirty days or sixty days out to revisit that one line item so that we've at least got progress. I'll make that motion.

BUTCH LAMBERT: Okay. Did everybody understand the motion?

(No audible response.)

DONNIE RATLIFF: That we would come back in sixty days and review that one item, the deductions.

BUTCH LAMBERT: Okay. I have a motion on the floor. Do I have a second?

BRUCE PRATHER: I'll second it.

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

All in favor, signify by saying yes.

(All members signify by saying yes, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: No.

BUTCH LAMBERT: The motion carries. Thank you, Mr. Grantham.

JERRY GRANTHAM: Thank you.

DAVID ASBURY: Sixty days.

AUDIENCE MEMBER: Could you clearly state that motion?

BUTCH LAMBERT: The motion on the floor and approved was we would adopt the information or the form that was submitted to us today and put that in effect and then within sixty days we would revisit what was submitted as far as the deduction area so that we can see if that's working or if we need to ask for adjustments. Okay, at this time, we will enter into public comments. The first person I have on the sign-in sheet is Ronnie Osborne. I'd ask you to please come forward and state your name for the record.

RONNIE OSBORNE: I want to thank God for what he has done and what he's going to do. I kind of feel like I'm in Egypt again. But I got some royalty checks here and I don't know why I got them. Can the Board explain why I got royalty checks? I believe in 2006 you all said it was on hold for dispute or something. I've also got two Heirs...my sister here is the same percentage that I've got. I got twenty-eight pages here and I've not added it up but hers is \$5.01. I don't know how many years this is. I ain't added none of it up. That's Patsy Moore. That's my sister. The same percentage that I get. Okay, I've got another one here that's mine saying nineteen cents. The same percentage of royalties, twenty-eight pages. I've not added it up. I

don't know what's what. That's the reason that...I read in the paper...you know, I want to thank Bristol Courier too for what they done and Mr. Gilbert. I've got an eighth grade education. I had to go to work early. I don't know much about this. But I would like to go and add this up to see why it's different. But my question to the Board is why I received these checks to start with.

BUTCH LAMBERT: I don't think the Board can answer that question for you, Mr. Osborne. We don't have the background for that as this particular time.

RONNIE OSBORNE: Okay.

BUTCH LAMBERT: I would ask you to contact Mr. Asbury and work with Mr. Asbury. If you'll see him on a break and set up an appointment.

RONNIE OSBORNE: Well, what about the difference in the...that's why that we need an in depth audit on this instead of one here and one there. That's why we need an in depth audit. I read that in the paper too. They just want to audit one here and one here and one here. We need a big audit, I believe, according to just a little bit I got. I ain't got much education like I said, but I've got enough to know that me and my sister was supposed to get the same amount. I've got one sister that didn't get a penny. Do you see why I'm asking these questions?

BUTCH LAMBERT: I understand, Mr. Osborne. But, again, without background information, we can't give you an answer here today.

RONNIE OSBORNE: Okay.

BUTCH LAMBERT: Please set up an appointment with Mr. Asbury.

RONNIE OSBORNE: Well, I had a meeting with Mr. Asbury in Bluefield on the Horn Heirs. This is his own handwriting. It's got (1) Stilwell Heirs. I've not received anything on that. (2) The Linkous Horn Heirs. I've received paperwork on that. (3) O. H. Keen Heirs. Mr. Asbury was the first one to sign this at Bluefield in a meeting. I've not received anything on the Stilwell Heirs. Here is the paperwork and here is the checks if anybody wants to see them, anybody. I just...you know, I'm just asking questions that I'd like to have answered, you know. Like I said, I've got an eighth grade education. I'm a coal miner. But I can see a little bit, you know. I'd just like to have some questions answered.

DAVID ASBURY: Mr. Chairman.

BUTCH LAMBERT: Mr. Asbury. The meeting in Bluefield was for all of the Linkous Horn Heirs and we did make an effort to meet with the family to discuss their individual interest in these units. We do have detailed

information for Mr. Osborne and his family. That meeting was spurred by one of the Heirs, Patricia Stilwell and Nancy. We have on a number of occasions offered to meet with the family and have detailed information. We do have that available for you. If you recall at the last meeting, I asked you to come and sit in our Division and we would go through---

RONNIE OSBORNE: Yes.

DAVID ASBURY: ---the individual ones with you.

RONNIE OSBORNE: Yes, but---

DAVID ASBURY: That offer still stands.

RONNIE OSBORNE: Okay.

DAVID ASBURY: You are a part of several of those wells on that piece of paper. We do have title information in our files that we have ready for you.

RONNIE OSBORNE: Well, a lot of these...I mean, I just glanced over these. A lot of these is minus. Minus, minus, minus. If it's minus, shut the things down, you know. I don't want to take out what wells I've got producing coming out of. Minus, minus, minus. I mean, you know---

DAVID ASBURY: We have...we have individual by well and by unit and we have shared that information with other parties that you've contacted on your behalf and we'll be

glad to share that with you at any time---.

RONNIE OSBORNE: Okay.

DAVID ASBURY: ---that you're available.

RONNIE OSBORNE: I mean, I just need it explained to me, you know. Really I ain't added it up, but nineteen cents is not very much out of twenty some wells, you know.

BUTCH LAMBERT: Mr. Osborne, have you been down to contact Mr. Asbury since the last Board meeting?

RONNIE OSBORNE: No. No, I hadn't.

BUTCH LAMBERT: I remember two...two Board meetings prior, I was not here at the last one, but we asked you to come and sit down with Mr. Asbury at that time. Again, I recommend that you do that. Without doing that, we can't... we can't provide you any information.

RONNIE OSBORNE: You told me to get my lawyer.

BUTCH LAMBERT: No. At this Board meeting, I told you...at a break, you said that you were getting a lawyer to sue this Board---.

RONNIE OSBORNE: No.

BUTCH LAMBERT: ---and I told you that probably that's the thing that you need to do is get you a lawyer. I also when we come back into the meeting, I asked you and directed Mr. Asbury to meet with you and you never showed up. This Board can't give you information on individual

wells. That's up to Mr. Asbury to do that.

RONNIE OSBORNE: I have never...I have never threatened to sue no one. Myself, I've never threatened to sue no one.

DAVID ASBURY: We...Ronnie, we'll be glad to work with you and your family. Again, we have information that details your specific interest. Some of the interest...and this is just off of the top of my head. Some of the of the interest you have is a proportionate acre share of like 1/110th part of less than an acre. Some of it is 1/110th part of maybe three or four acres. But you are an Heir in all three of those and in each one of the wells on that piece of paper. We'll be more than happy to make the attempt to share what we have in the file with you and show you your percentage ownership in this unit account. And you're saying that the Stilwell Heirs I am a shareholder now.

DAVID ASBURY: No.

RONNIE OSBORNE: Well, I mean, that's what you said, all three.

DAVID ASBURY: No. What I'm telling you is that we...we will share with you---.

RONNIE OSBORNE: Okay.

DAVID ASBURY: ---the title information that's in

our files for each of the units as defined to us. We have not done research to say what Heirship you are associated with. But we can share with you our knowledge of what's recorded documents in the county courthouse and your share in each of these units that you have on that piece of paper. We'll be glad to do that.

RONNIE OSBORNE: Okay. And explain the Stilwell Heirs or show me?

DAVID ASBURY: I can't Heirship, no, sir.

RONNIE OSBORNE: Okay. Okay.

DAVID ASBURY: But what I can provide is what our knowledge is of recorded documents---

RONNIE OSBORNE: Yeah.

DAVID ASBURY: ---that shows where you're an Heir in individual tracts. If the Heirship is incorrect, that something that the Board nor my division can correct. That's something that the family has to correct.

RONNIE OSBORNE: I am a God fearing man. I don't make threats. I've got to be good to people. I don't make threats. I've never made threats. I used to before I started going to church. I don't make threats. I don't make threats.

DAVID ASBURY: We don't...we don't see any of this as a threat, Ronnie.

RONNIE OSBORNE: I'm just asking question.

DAVID ASBURY: We'll be glad to work with you and do our very best to help you understand your circumstances and your family's circumstances. Again, it comes back to a conflict of ownership between coal and gas. I think all of your family understands that piece. We can provide the element of ownership by tract for you. We can do that and be glad to work with you to do that.

RONNIE OSBORNE: Well, I've got...I've got paperwork. I mean, a lot of people might think you throw it away. I don't throw nothing away. I keep it all.

DAVID ASBURY: Ours is probably...our information is probably that high as well. We...again, it's not an easy thing to understand and we'll be glad to spend as much time as necessary to help you understand as we understand it.

RONNIE OSBORNE: Well, I mean, nineteen cents is...you know. I wouldn't even waste a stamp for nineteen cents.

BUTCH LAMBERT: Thank you, Mr. Osborne. Juanita Sneeuwjagt.

JUANITA SNEEUWJAGT: Good morning.

BUTCH LAMBERT: Please state your name for the record.

JUANITA SNEEUWJAGT: Juanita Sneeuwjagt. This is a

mostly complimentary, which you don't hear a lot of. I wanted to make a couple of comments about First Bank & Trust. Are any of those people here today that you know of?

(No audible response.)

JUANITA SNEEUWJAGT: Well, unfortunately, they won't get my compliments. So, okay...I just wanted to congratulate the Board for removing the escrow...the escrow from Wachovia/Wells Fargo and placing it with First Bank & Trust. When it became clear the ship was going down, it only made sense to abandon to a life boat. It still is a mystery to me that no one caught the entire \$25,000,000 being FDIC insured for only 250,000 or that escrow continued a downward spiral. I just want to say from personal experience in handling my own accounts and investments, that's when I caught those errors by going through that report. So, a lot of times we're not here to challenge, although we do plenty of that too, but often times what we have to say is meant to be helpful. In that case, it was meant to be helpful. Placing the royalty escrow with First Bank & Trust is not greatly different from handling your personal bank account. If you choose to place 50,000 of your money in the bank of your choice, you would not expect that bank to charge a service fee. If you purchased a certificate of deposit which promised to pay a very low

interest in return for using your money for the duration of the term, that contract is in the bank's best interest. You've made very little money on your CD, usually no more than one to a one and a quarter percent is all the bank is using your money to make loans at 4 to 6%. The message to remember here is that placing the royalty escrow with First Bank & Trust, or any bank for that matter, is a great financial advantage to that bank. First Bank & Trust...excuse me, the First Bank & Trust will make a huge amount of money from the royalty escrow placed in their care, in otherwise, why the incentive to bid for the account in the first place. I feel a very small service fee...and I haven't seen that, you may have that somewhere, and if you do please share it with me. I feel a very small service fee is in order here. Some bank keeping must be done by the financial broker or its team of First Bank & Trust. But their wallets need not be fattened by servicing the sub-accounts. Banks are in the busy to make money and to do it with other people's money. On behalf of the citizens, I request you keep a watchful eye on the account and the keeper of the account. There, again, my congratulations to First Bank & Trust for receiving the trust of this twenty-four and a half million dollars. I thank you very much for that. I appreciate you letting me comment. I don't...this

is just general. I don't see that you need copies. If you do, you may have them.

BUTCH LAMBERT: Thank you, Ms. Sneeuwjagt.

JUANITA SNEEUWJAGT: Thank you.

BUTCH LAMBERT: Harry Anderson.

RONNIE OSBORNE: Mr. Asbury, can I clarify one thing? I did tell them...I'm Ronnie Osborne. I did tell them that I might get them for trespassing on my property. I forgot about that.

BUTCH LAMBERT: Thank you, Mr. Osborne. Please state your name for the record.

HARRY ANDERSON: My name is Harry Anderson. I'm speaking on behalf of my family. We own a 131 acre tract of property that's completely surrounded by former...former Pittston/Clinchfield property. Most of my questions that I want to address to the Board or to whoever today concerns a force pooling order. I just wondered if I should wait until that item comes up or should I go ahead and address the questions now?

BUTCH LAMBERT: It would be appropriate if you would wait until that docket items appears.

HARRY ANDERSON: Okay.

SHARON PIGEON: Is it on today's docket?

BUTCH LAMBERT: If it's on the docket today.

HARRY ANDERSON: Yes, it's item twenty-one.

BUTCH LAMBERT: Okay. Thank you, Mr. Anderson.

J. W. Compton.

J. W. COMPTON: I only had one question. When are you going to start mining---

COURT REPORTER: You need to come up here, sir.

BUTCH LAMBERT: Come to the front, Mr. Compton. Please state your name for the record, Mr. Compton.

J. W. COMPTON: J. W. Compton.

BUTCH LAMBERT: Go ahead.

J. W. COMPTON: The only thing that I wanted to know is when you're going to start taking gas and oil out of the Smith Heirs Tract, Big A Mountain.

BUTCH LAMBERT: I'm not familiar with that. I'll have to see if Mr. Asbury might be familiar.

DAVID ASBURY: I'm not...have you got a lease or have you received information---

J. W. COMPTON: Yeah, we have a lease with you.

DAVID ASBURY: With...with a gas company?

J. W. COMPTON: Yeah.

DAVID ASBURY: Which gas company?

J. W. COMPTON: It's the gas company. Are there different ones?

DAVID ASBURY: Yes, sir.

BUTCH LAMBERT: Yes, sir.

J. W. COMPTON: I don't know.

J. W. COMPTON: Who are you with? What gas company?

BUTCH LAMBERT: We're not with the gas company. Sir, we're the Board appointed by the governor to hear these...to hear cases from several different gas companies.

DAVID ASBURY: Do you...have you recently got paperwork or documents?

J. W. COMPTON: Yeah, I just got a check. It has been back a couple of weeks ago, I guess it was.

DAVID ASBURY: And you got a check from which company?

J. W. COMPTON: Yeah. But I can't tell you the name now because I don't know. It's got GS Gas or something. I don't know.

SHARON PIGEON: Do you have your paperwork at home?

J. W. COMPTON: Yeah.

SHARON PIGEON: So, that if you went home and got your paperwork you could call and talk to Mr. Asbury with it in front of you and you could give him that information?

J. W. COMPTON: Well, just forget it because I...I only want to know when you're going to start. I guess they will tell me when they do start.

BUTCH LAMBERT: Well, if you've received a check, they've already started.

J. W. COMPTON: Well, I've had a lease for ten years. They paid me for ten years when they give me the lease. I've got...the lease run out in November the 27th, I believe it was. I'm not for sure of the dates. But that's...in November sometime. When the lease run out and then they started paying me by the month.

BUTCH LAMBERT: Okay.

DAVID ASBURY: There are...Mr. Compton, there are different gas unit areas and the areas are expanding everyday. I'm not particularly sure about your tract of land. If you'll share, we'll be glad to work with you. But it sounds like you're a leased party with one our major gas operators. We have several in the Big A mountain area. We'll be glad to work with you to determine what you're circumstances are there.

J. W. COMPTON: And I can call you on the phone and talk to you or what?

DAVID ASBURY: You're welcome to call or you're welcome to come and visit our office. Yes, sir.

J. W. COMPTON: Are there offices in here?

BUTCH LAMBERT: Yes, sir.

DAVID ASBURY: Down on the other end of the hall.

Yes, sir.

J. W. COMPTON: Okay. I guess, that's all.

SHARON PIGEON: Be sure to bring your paperwork so that he can help you with the actual information that you are already have, okay?

J. W. COMPTON: Okay. Thank you.

BUTCH LAMBERT: Thank you, Mr. Compton. Jerry Grantham. Please state your name for the record.

JERRY GRANTHAM: Jerry Grantham, President of the Virginia Oil and Gas Association. First, I'd like to express my thanks to each of you on the Virginia Gas and Oil Board for your service every month. I know you don't do it for the \$50 that you receive even though that's a lot of money, but you do it because of the commitment and dedication that you have to see responsible development of the nature gas industry here in Virginia. I can tell you that I presented before several gas and oil Boards in different states. These Board were made up primarily of Gas and Oil people, regulatory representatives and attorneys. I believe the makeup of this Board here in Virginia represents a much more diverse spectrum of the population here in Southwest Virginia. I think that's very important too to have all sides.

I was sorry to read the recent series of articles

that attacked the Board, the DGO and the nature gas industry. In my opinion, these articles were one sided and in many cases inaccurate and not representative of our industry. Titles of articles like "Why Powerful Corporations Reproffits from Mountain Empires Natural Resources. Most Landowners are Left Empt-handed." is a prime example of distorting these facts. The title occurred in the Sunday, December the 12th addition. As you know, most landowners receive a check every month while only a very small percentage go into escrow. The fact...this fact was even pointed out in a letter to the editor the previous day. In fact, the editor's response was saying, "Our series has been extremely clear and not all of the royalties go into escrow." But still, the next day the title included "Most landowners go empty-handed." This is just one example that clearly demonstrate the slanted view that the paper presented.

I also believe that the attack on Mr. Asbury and his staff and the DGO was very unfair. Mr. Asbury is one of the most dedicated, conscientious individuals that I know with integrity that is second to none.

Finally, I believe the attack on the industry was clearly biased and one-sided with an eight article series that totaled more than fifteen thousand words printed. I

kept waiting for at least a portion of an article discussing the many benefits of the natural gas industry here in Southwest Virginia, but that side was never presented. The nature gas industry is dedicated to the responsible development of the nature gas resources here in Southwest Virginia. We have demonstrated that in the past and we will continue to demonstrate that in the future. Thank you.

BUTCH LAMBERT: Thank you, Mr. Grantham. I'm not sure of the next name. I'm having trouble with the last name. John---

JOHN FOGGLEMAN: Fogleman.

BUTCH LAMBERT: ---Fogleman.

JOHN FOGGLEMAN: I'm going to hold.

BUTCH LAMBERT: Okay. Thank you, sir. Charles Burgwell.

CHARLES BRIGWELL: Brigwell.

BUTCH LAMBERT: Brigwell. I'm sorry.

CHARLES BRIGWELL: Thank you, Mr. Chairman.

BUTCH LAMBERT: Good morning. Would you please state your name for the record?

CHARLES BRIGWELL: My name is Charles Brigwell, CPA. My speech is a little bit, I guess, after the fact where you went over thirty-seven. I don't know if this would have changed any of your minds. But I come from the

gas side of the industry. I was a business analyst for Pine Mountain Oil and Gas until I left Pittston. At the time, I was with Pine Mountain oil and Gas about six...well, four years and about twelve years of the internal audit function of the Pittston Company. Now, I represent the other side. I've got three offices, Abingdon, St. Paul and Gate City. I perform services for a lot of different land companies. What Jerry has just said is correct. They do a good thing. But what we're really concerned here is that one little one-eighth of royalty that they're paying. We're not concerned with the seven-eighths. There's a lot of complex issues out there that whoever performs this audit or if you reconsider...I had actually made contact with Mr. Asbury yesterday to inquire about performing...putting a bid on the proposal for this audit. Just as Mrs. Dye had concerns this morning, as well as Bruce as far as questions of adaptability of that one little one-eighth royalty at the wellhead. I mean, we have no direction of what they do from the wellhead to the time they get sold or is that the landowners responsibility. I mean, that's not what they're intention...a lot of states had gone that route to go to the wellhead because there's so many other types of gas of so many byproducts that they could market. So, there again, we get into a lot of legal issues here that we're really

concerned with the one-eighth royalty. At this point, I know you've done the vote on thirty-seven this morning if you reconsider or at least make an encouragement to use our firm as a consulting services because I'm representing a number of different land companies, as well as small land holders as well. So, I want to see the right thing done here for those escrow accounts. Any questions?

BUTCH LAMBERT: Questions or comments from the Board?

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Brigwell.

DAVID ASBURY: Mr. Chairman, we'll make sure that Mr. Brigwell is aware of any future audits as well as these come up.

CHARLES BRIGWELL: That's generally...audit requests come to our office unsolicited by our office. I had heard this from a former Board member that is not here today back in the early spring that I may be contacted. So, apparently, that wouldn't the protocol. I may not have been registered with the State that pursued that avenue. So, I don't know what your protocol is that you're trying to focus in on. Mrs. Dye really had a concern. I think it's very valid.

KATIE DYE: I just have one question.

CHARLES BRIGWELL: Sure. Uh-huh.

KATIE DYE: In your professional opinion, where you have worked in the industry and everything---?

CHARLES BRIGWELL: Right.

KATIE DYE: ---do you think that the auditors would need experience in doing petroleum---?

CHARLES BRIGWELL: Oh, definitely.

KATIE DYE: ---auditing?

CHARLES BRIGWELL: Most definitely. I mean, this is a very complex and legal issues here. We deal with property and mineral rights and interests and what the intent of these agreements are. You know, that's indefinitely...the States had swung to our direction to look at that wellhead and gone from the gross proceeds because you could have byproducts. That selling point may be in the future. They may go to a storage. When the season cycle pricing is higher, that gas company will release that gas on the market at a higher price. But what about your royalty? When is that happening? There, again, you get into a lot of legal issues that are very complex. So, I just advise you caution, you know, whoever you all end up with.

SHARON PIGEON: Sir, did you say you were not registered with the State or---?

CHARLES BRIGWELL: Exactly. I was not. Mr. Asbury

pointed that out that I need to...if I was to perform any services for the Board, I need to get registered. That should not be a problem whatsoever here. There, again, just remember on everything to decide when we're speaking of royalties, like Bruce had pointed out, it's a venture...it's a joint venture or is it a royalty? What is that royalty owner expecting to receive? What's the intent of the agreement? That varies. That's all I had to say.

BUTCH LAMBERT: Thank you, sir.

CHARLES BRIGWELL: Thank you.

BUTCH LAMBERT: I believe it is Louise Barton Company.

LOUISE BARTON COMPTON: I had planned to hold, but I think I just need to share a statement. I am Louise Barton Compton. I don't apologize for education having it or not having it. I do have a Master's Degree in Nursing. Come March of this next year, I am still working, I will have practiced for fifty-one years.

BUTCH LAMBERT: Congratulations.

LOUISE BARTON COMPTON: I have been here to some of these meetings, but most of the time I'm working and I can't come. But it just seems like to me from my standpoint of where I see people sick, some of them not making it and some of them making that we all ought to be concerned with

honesty. In my organization folks, from what I have seen of this, I believe it is so sick that we ought to be recommending it to palliative care. I would just like to see that something could be done. (Claps.) Now, like the first speaker, I got two checks. I'm busy. I don't have time to add up the postage on all of those brown envelopes that I have received to know how much besides the staff that it takes to produce all of this and send it to me. I live out in the country. I have to go to the post office to sign to get it and I have received two checks. One for fourteen cents and one for twenty some cents. Maybe some of you people that know about banking and where to refer, help me at the break find a bank that can cash my checks for me. You know, the economy is bad. Thank you.

(Claps.)

BUTCH LAMBERT: Thank you, Ms. Compton. I think this next name is Catherine Jewell. I'm not sure.

CATHERINE JEWELL: I'm new this thing.

BUTCH LAMBERT: Well, I can't read your writing. I apologize.

SHARON PIGEON: You were on the run today, I think.

CATHERINE JEWELL: Catherine Jewell. Have you guys no shame? You know, we have taken...(inaudible). We have gone from should post production be allowed to how can we

justify it and make it transparent so that we can then put it on our little royalty statements and it's all fine and beautiful with your (inaudible)...this 44 whatever percent, I saw the same check because I got the same check for an estate that I'm handling, okay. That's what was taken out.

BUTCH LAMBERT: Ms. Jewell, are you addressing the Board or the audience or---?

CATHERINE JEWELL: Well, we have a problem with everybody hearing. So, I want to make sure might voice project properly so that everybody can hear.

BUTCH LAMBERT: I just want to make it clear if you were addressing the Board or the audience.

AUDIENCE MEMBER: Everybody.

CATHERINE JEWELL: Everybody.

BUTCH LAMBERT: Okay.

CATHERINE JEWELL: Have you no shame. There. 126 to \$1.50, okay, in post production. In addition to what's taken from the sale price. In addition to the deduction and volume that's reported on the DGO website. Now...you know, just because some of us in this room believe that the (inaudible) doesn't mean the rest of us should make the same belief when we know better. My second question---

BUTCH LAMBERT: Do you have a question...a first question? I didn't hear that.

CATHERINE JEWELL: Have you no shame? Would you like to respond?

BUTCH LAMBERT: You can...no, ma'am. Proceed with your second question.

CATHERINE JEWELL: Okay. My second question, who were the companies that provided the bid?

BUTCH LAMBERT: As of today, that information will be made public. You can get that.

CATHERINE JEWELL: Okay. And I heard you say that some were disqualified.

BUTCH LAMBERT: That's right.

CATHERINE JEWELL: What was the basis for the disqualification?

BUTCH LAMBERT: They didn't meet the qualifications within the RFP.

CATHERINE JEWELL: What qualifications? I'm asking you. A two cross question here.

BUTCH LAMBERT: That information will be made public directly after this meeting. You will be able to get copies of those RFPs that will also explain why they were disqualified.

CATHERINE JEWELL: Okay. I just...it's transparent to me. It has been very transparent to me. Thank you.

BUTCH LAMBERT: Are there any folks that wishes to

make a public comment that didn't sign up?

MARTHA WILLIAMS: I would like to make a comment.

BUTCH LAMBERT: You will have to...please come forward and state your name.

MARTHA WILLIAMS: My name is Martha Williams, Salem, Virginia. I'm one of the Linkous Horn Heirs. I questioned it. I really have gone over this series of articles. I am very thankful for the Bristol Herald. It did shed a little light on some of the things. But my big question is, what...I know there are people that have been coming a lot longer than I have. But I've been into this for twelve years. In the beginning, I guess I can see you escrowing these accounts, you know. The money. But at what point do we sit down and decide, you know, and disburse or make some sort of an agreement that we can all agree on like for myself and my two brothers that we could agree on some kind of...you know, to be able to collect the royalties that belong to us? You know, twelve years seems a long time. I know it was there before that. So, I mean, how many years down the road are we looking at to get a proper settlement?

BUTCH LAMBERT: That's not up to this Board. That would up to you working out with the other parties.

MARTHA WILLIAMS: Yes, sir. But that's impossible. We've tried. There's nothing we haven't tried.

You guys know. Some of you having been serving here since that day. Nothing we do seems to be enough. It's always well you've got Hurt McGuire half of this or you've got to do this. Then we have family members that have signed. They go into the Bluefield office. They're promised forty something thousand dollars. When they come here and it's moved down to sixteen...or came over to Abingdon and not here, maybe 15,000 or 16,000 or and then a check shows up on the doorsteps for \$600. Or lucky like some of these others, they get a whole whopping \$1.14 or, you know...I mean, something has got to give here.

BUTCH LAMBERT: Is that all of your comments?

MARTHA WILLIAMS: Well, this is a facts finding and we're supposed to come here to get answers.

BUTCH LAMBERT: Well---.

MARTHA WILLIAMS: And I would just like...I would like some kind of an explanation, like where are we heading?

BUTCH LAMBERT: I don't think this Board can answer that for you because we only disburse when we get the proper paperwork that you have an agreement and we can disburse. Outside that, this Board cannot help you work out of your agreements.

MARTHA WILLIAMS: Then where do we need to go? What's the next step?

BUTCH LAMBERT: I don't think this Board can answer that for you.

SHARON PIGEON: You can work out an agreement as the statute says or you can have a Judge rule on this issue. Those are the two options and either of those comes to the Board---.

MARTHA WILLIAMS: Well, the Supreme Court...the Supreme Court of Virginia has ruled on that, you know, for---.

SHARON PIGEON: The Supreme Court of Virginia has ruled on three very specific severance deeds.

MARTHA WILLIAMS: But, ma'am, it is a Supreme Court ruling.

SHARON PIGEON: Yes. And it only applies to those parties.

MARTHA WILLIAMS: So, we don't have the same Courts for everybody in Virginia.

SHARON PIGEON: We don't know that you have the same deeds.

MARTHA WILLIAMS: I can't count the times that we've brought to the old place---.

SHARON PIGEON: To a Judge.

MARTHA WILLIAMS: No, to your Board.

SHARON PIGEON: This Board has no authority for

that.

BUTCH LAMBERT: We have no authority to interpret deeds.

MARTHA WILLIAMS: Well, we need...I mean, I think that's what Mr. Gilbert was...one of the things he was looking at is like this goes on and on and on and you come to the place where we really need to know where we're headed or what's the next step if this is not going to do any good.

BUTCH LAMBERT: I wish we had answers for your concerns, but we don't. We're operating within the laws and regulations that we have at this point.

MARTHA WILLIAMS: Okay. Thank you very much. I mean, I just...I intend to whatever it takes to get an answer wherever I have to go. I mean, after twelve years...thank you very much for allowing me to speak.

BUTCH LAMBERT: Thank you. At this time, we're going to take a ten minute recess.

(Break.)

(Donnie Ratliff leaves the hearing and Mary Quillen arrives for the hearing.)

BUTCH LAMBERT: Ladies and gentlemen, there has been a lot of discussion and talk this morning about several different issues, the escrow account and the articles. So, at this time, I would like to give one more opportunity for

public comment. If anyone else would like to address the Board on issues related to the Board that this Board can answer questions, I'd ask you to please come forward and state your name for the record.

FRANK HENDERSON: Frank Henderson with Appalachian Energy. I just wanted to address the Board briefly in regards to the series of articles in the paper and the failure of those articles to address the key issue, in my opinion. The key issue is ownership of the gas. The articles made the industry, the Board and the regulators out to be villains, incompetent and the whole nine yards. The issue is our companies, my company in particular, we would prefer to write a check every month to whoever owns the gas. When you have to put it into escrow, it's nothing but a hassle for the company. It's nothing but a hassle for the people that are trying to get the gas. But until that issue of ownership is decided, that's what we're required to do. We are doing that by the statute and by the law and that's the way it has to be done. So, if there's an ownership issue, the gas companies do not have anything to do with the ownership issue. That's between you and whoever the conflicting claimant is. If it's a clear cut ownership, you get a check. It's very simple. I can assure you that most companies would prefer to write the checks directly to the

people who are the owners of the gas. Unfortunately, that's...that whole issue was not explained in those eight articles and fifteen some thousand words. That's the core issue here. Thank you very much.

BUTCH LAMBERT: Thank you, Mr. Henderson. Anyone else to comment?

HARRY ANDERSON: Yes, sir, I've got some late comments on my specific issue. But I'd like to commend Dan Gilbert and the Bristol Herald Courier for the articles. Really, you know, if you can't stand the scrutiny of the press than, you know, there's a problem there. I've served on elected Boards and I've served on appointed Boards. I didn't always welcome their presence because it made it a little bit tougher on us. But if you're doing anything wrong, and it may be unintentional, then you should certainly welcome that information being made...being given to you certainly and being made public. If you're not doing anything wrong, then you have no...you should have no problem with that. But, you know, Frank, I know you well. I think, you know, you're honest businessman. But yet on the other hand, the press is just something that we need to deal with sometimes as elected officials and appointed officials. He did give you credit. I mean, we're under...you guys are understaffed. I know that, David. You

need more people to do what you've got to do. You guys are layman. You hold down day jobs. I've served on Boards where I did that and you're not always able to give your full attention to these matters. I realize that. But, obviously, there's some problems here that need to be addressed. You have an opportunity to respond to that. I wish you would respond to that, you know, publicly and in the paper. I'm sure that they would give you equal space to do that or I certainly would hope that they would give you equal space to do that. I know...I mean, I've been around this matter long enough because we've had a leased property. We now have an unleased property in another area. We've had questions. Most of them have been addressed. We still have some problems that need to be addressed. But, gosh, I'm glad that the articles were written. I was given information that I didn't have before. I was given hope certainly and bet you you guys are with me on this one that the Legislature will address once and for all some of these issues concerning gas and gas ownership. I would like to know, you know, so that we don't have to...I don't know whether to accept the 25%/75 split or if I own all the gas or if it should be somewhere in between. You know, maybe, you know, whatever. I will work that out. But the information given was great information. I assume it was

verified information. If it wasn't, you need to point that out. But I know that there were Board members and other individuals that this article related to that were given a chance to respond to emails and respond to questions and you didn't bother to do that. But transparency is a great thing in our system. We should welcome that. Like I said, I feel for you because I know somewhat what you have to deal with. But I do commend Dan. You know, I thought it was a great series. I know it was an informative series. You'd better not fight with the people that buy ink by the barrel, I'll tell you right now. You'd better try to answer their questions and try to get those answers on record. So, I wanted to say that and then I'll take about our issues, which are much more mundane in a few minutes.

BUTCH LAMBERT: Thank you.

(Claps.)

BUTCH LAMBERT: Sir, would you state your name for the record.

HARRY ANDERSON: Harry Anderson.

BUTCH LAMBERT: Thank you. We just need it in the record. Thank you.

JOHNNY FOGGLEMAN: My name is Johnny Fogleman. They hadn't got to our little piece of land yet. But they're talking about ownership. Well, I bought a little

property over in Russell County, two-tenths of an acre...two and a half tenths. It was on there, coal, mineral and gas and oil rights. I bought that property and the farmer that I bought off of, it accepted the right...all the rights. I don't own no gas rights, no coal or nothing. He owns it. I ain't got no reason to say anything. But if your deed says that you own the coal rights, the gas or oil, I mean, hey, ownership is right on that deed. I mean, hey...I mean, what's...how are they tying all of this up like that. Why ain't the royalties been paid on property that they have that oil, gas, coal or whatever? They're getting out from under that ground there. It goes to the property owner.

BUTCH LAMBERT: Thank you for your comments.

DAVID ASBURY: I'm sorry. I didn't get his last name, please, Mr. Chairman.

COURT REPORTER: Fogleman.

BUTCH LAMBERT: Fogleman. Johnny Fogleman. Thank you. At this time, the public comment period will be closed. I'd like to take the opportunity to read a statement. As many of you know, I'd like to make a statement for the record for the benefit of everyone in attendance today. After I've completed my statement, we will then move to the business of reviewing other items on the docket. As many of you know, the Bristol Herald Courier

Newspaper run a series of news articles and editorials last week concerning a variety of issues related to coalbed methane gas ownership. These issues included changes to the Virginia Gas and Oil Act in 1990 that replaced the existing rule of capture with the force pooling process, established the escrow account and created the Virginia Gas and Oil Board. Different interpretations of the Virginia Supreme Court decision in the Harrison Wyatt versus Ratliff case regarding the determination of ownership of coalbed methane, the property reporting of gas production and subsequent depositing of royalty payments to the escrow account, and management of the escrow account by both the Virginia Gas and Oil and the Department of Mines, Minerals and Energy. The Department and the Board have and will continue to address issues related to the timely filing of Board orders and deposits into the escrow account. DMME has assigned designated staff earlier this year to clear up the backlog of Board orders and continues to review deposits and direct companies to fix these areas. This has been a very slow process due to the complicated nature of the escrow accounting and funds disbursement process, but this has resulted in new payments into the escrow account and for the first time a record year of disbursements. We wish to acknowledge the considerable and thorough research into

these issues by the Bristol Herald Courier reporter, Daniel Gilbert, who highlighted the areas of concern that we were already committed to addressing and those efforts are continuing to process. I want to express my sincere appreciation on behalf of the Department and the Board for the extensive hours of time and effort spent by David Asbury, Diane Davis and other staff members at DGO. To Mr. Gilbert's questions and requests for the records in the interest of full public disclosure. Thank you.

The next item on the docket is...we'll call item number four. The Board will receive corrective testimony and disbursement exhibit from CNX regarding a prior approved disbursement of funds from unit AW-109, docket number VGOB-01-0821-0909-01. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: Seeing no others, Mr. Swartz, you may proceed.

MARK SWARTZ: Thank you.

(Anita Duty is duly sworn.)

ANITA DUTY

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

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, would you state your name for the record, please?

A. Anita Duty.

Q. Who do you work for?

A. CNX Land Resources.

Q. And what do you for them?

A. Pooling supervisor.

Q. Were we here recently on an escrow disbursement from AW-109?

A. Yes.

Q. And after the hearing in that matter, did you catch an error in the disbursement exhibits?

A. Yes.

Q. And have you provided the Board today with a corrected exhibit?

A. I have.

Q. And are we here to get it right before the disbursement is made?

A. Yes.

Q. Okay. What was the...what the problem with the spreadsheet when we were last here?

A. On Tract 1B, we had originally shown Marvin

Fuller as owning an interest in that tract.

Q. Okay. And what is Marvin Fuller's interest if any in that Tract?

A. Zero.

Q. Did someone acquire his interest?

A. Yes.

Q. Who would that have been?

A. I think it was split evenly between Mike and James Rasnic.

Q. Okay.

A. Well, I'm sure it was.

Q. Okay. And were the two Rasnics already in the disbursement?

A. Yes. They were on direct pay, Mike Rasnic was.

Q. Okay. And so their interest were already accounted for?

A. Yes.

Q. And essentially you were including an interest of a person who had sold?

A. Yes.

Q. And is the only correction to delete the vendor, the seller?

A. Yes.

Q. Did it change any of the percentages in terms of the percentages to be applied by the escrow agent as the money came out?

A. It did not.

Q. Okay. So, the error was not in the map to assign percentages, it was simply in the identification of the recipients?

A. Yes.

Q. Okay. And you've provided the Board today with, you know, a collection of exhibits, but the first page is a tract by tract escrow calculation, correct?

A. Yes.

Q. And is it your request that the Board enter a new order making and authorizing the Board's escrow agent to make the disbursement described in this exhibit using the percentages in the column owner's percent of escrow, correct?

A. Yes.

Q. All of these agreements were 50/50 agreements?

A. Yes.

Q. So, that the half...the 50/50 percentage would apply to everyone receiving them?

A. That's correct.

MARK SWARTZ: Okay. That's all I have, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: Motion to approve.

BUTCH LAMBERT: Do I have a second?

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, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: The next item on the agenda is the Board in compliance with Section 45.1-361.22.5 received and executed royalty split agreement from Erma Horn and James McGuire Land Trust, conflicting owners in Unit Q-34. This

is docket number VGOB-00-0321-0779-02. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz. I would---.

BUTCH LAMBERT: Do we need to call the rest of those, Mr.---?

MARK SWARTZ: I would think so. Let's call...since they're identical essentially, five, six, seven, eight and nine.

BUTCH LAMBERT: Okay. Also, calling docket number VGOB-00-0321-0780-02 and docket number VGOB-00-0321-0781-02, also calling docket number VGOB-00-0321-0782-01, also calling docket number VGOB-00-0321-0784-01.

MARK SWARTZ: Mark Swartz on those as well.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

MARK SWARTZ: The process here when Mr. Asbury gets an indication that there has been a disbursement agreement under the regulations that this Board adopted, he is required to put it on the docket and to advise the operator that, you know, he has got the disbursement agreement and that they need to move forward. What you normally see in these cases is we react to his request with a petition for disbursement. We have those prepared. They will be filed this Friday. So, essentially this is kind of a notice. There's nothing on the docket today. None of the people in

these units got written notice of a hearing today. But you need to, I guess, acknowledge that there's an agreement and I'm indicating that we'll have our petition filed this Friday. So, I think you can hear it next month if you want to. Obviously, you'll have publication time. So, my request would be to let us file our petitions and put it on the docket for next month and we'll have, I guess, five more disbursements to make.

SHARON PIGEON: Do you think thirty days is enough?

MARK SWARTZ: I think it's more than enough. We should be filing Friday.

BUTCH LAMBERT: So, continued until January?

MARK SWARTZ: January.

DAVID ASBURY: Thank you, Mr. Swartz.

MARK SWARTZ: Thank you. In the nature of continued housekeeping, items ten through thirteen, one of which has been on the docket for a while and the other three has been added recently, we're going to need a continuance on those as well. There's some accounting issues that we have been unable to resolve. Mr. Franks...J. C. Franks, who I'm sure all of you know, is interested in these...we called him yesterday to tell him that we would be asking for a continuance so that he didn't have to, you know, make the trip and he has not come. He did not object when Anita

talked to him. I think he appreciated the call. So, if you could continue this. Anita, do you think we can be good to go in January on these or---?

ANITA DUTY: No, we'd better go sixty days.

MARK SWARTZ: February?

ANITA DUTY: Yeah.

MARK SWARTZ: Okay.

SHARON PIGEON: Which numbers?

MARK SWARTZ: It would be ten...docket items ten, eleven, twelve and thirteen.

SHARON PIGEON: Fourteen?

MARK SWARTZ: No, fourteen we're good to go on. So, it will be ten, eleven, twelve and thirteen.

BUTCH LAMBERT: Okay.

MARK SWARTZ: February would be great if we could do that.

BUTCH LAMBERT: Let me read those into the record. Item number ten, which is docket number VGOB-93-0420-0362-02 continued until February. Docket number VGOB-93-0420-0358-02 continued until February. Docket number VGOB-93-0420-0359-02 continued until February. Docket number VGOB-93-0420-0361-03 continued until February.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: Mr. Swartz, will fourteen and

fifteen take very long because I would like to cover disbursements if can get into---?

MARK SWARTZ: I don't think so. I mean, if you want to go to the disbursements directly we can do that, but I've got Les here who doesn't normally come to testify in those two.

BUTCH LAMBERT: Okay, if they won't take too long, let's get those so that we'll move directly into disbursements. I want to get those out of the way.

MARK SWARTZ: Okay. Then the next thing after that would be our disbursements and we'll good to go on those. Les, do you want to come up?

BUTCH LAMBERT: Calling docket item fourteen, a petition from CNX Gas Company, LLC for a modification of Middle Ridge 1 Field Rules to allow for more than one well to be drilled in units AW132, AW133, AX132, BL107 and BL108, docket number VGOB-00-1017-0835-06. All parties wishing to testify, please come forward.

MARK SWARTZ: It will be Mark Swartz and Les Arrington. Les, could you state your name for the record, please?

(Leslie K. Arrington is duly sworn.)

LESLIE K. ARRINGTON

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

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. And your name?

A. Leslie K. Arrington.

Q. Les, you've been here on numerous occasions with regard to petitions to allow infield drilling, is that correct?

A. Yes, I have.

Q. Indeed you have been here before with regard to the creation of the Middle Ridge Field and also with regard to infill drilling in that field, correct?

A. I have.

Q. The application that we have today that the Board has received exhibits from you pertains to, I think, an additional five units in the Middle Ridge, is that correct?

A. Yes, it does.

Q. And to sort of focus the Board, there are dates on the exhibit and you'll be able to figure this out, but there are three over on the...I guess it would be the west three units?

A. Over on the east side.

Q. East...you're right on the east, okay.

A. And then two

Q. Then two down here?

A. Yes.

Q. Okay. And have you tried to provide the Board with well data if we go to the additional exhibits that are in the vicinity of these---?

A. Yes, we have.

Q. ---additional units that you're seeking to infill drill in?

A. Yes, we have.

Q. Okay. And lets take a moment, let's not go to the summary data, but let's go to the daily average production data. You've provided the Board with Data on eight wells, is that correct?

A. We have.

Q. And would you identify the eight wells by number that this data pertains to?

A. I'll identify the units.

Q. Okay.

A. AY135, AW135, AV136 and AW136, AV137 and AZ137 and then there's an additional well, BH104 that applies to the southern two wells.

Q. Okay. Okay. And rather than taking each

of the wells that we've provided data for an individual basis, I'd like to direct your attention to the sort of summary exhibit, which should be the first graph after the map. It's this page. Okay, and this page compares 60 acre and 30 acre drilling, correct?

A. It does.

Q. And the blue line represents which?

A. The blue line was the original group of 60 acre wells.

Q. Okay.

A. And then the red line represents the infill wells that we've drilled.

Q. And if we...if we look at the bottom line from 0 to 2,000, is that days?

A. It is.

Q. And then if we look on the left, we've got MCF per day, correct?

A. Yes.

Q. And does this first chart combine the well data from the eight wells that we're talking about that you've provided individual data for?

A. It does. Yes.

Q. And perhaps some more wells as well?

A. Yes, it does.

Q. Okay. The blue line would be from the date of first production?

A. Yes.

Q. In the Middle Ridge Field?

A. Yes.

Q. And it continues passed the point of the red line?

A. It does.

Q. And it looks like the second well drilling program started roughly 1200 to 1250 days into development?

A. Into the development of that area. It does.

Q. Okay. Would you compare for the Board what you experience when you drill a second well in these units based on the data that you've accumulated?

A. The accumulation of data indicates that. In most cases, and we do have a well or two that it does not apply to, but normally not only will your new well come in at a higher rate than your original well, but your original well production will also increase.

Q. And if we look at the second sheet here, the first chart that you've provided the Board with regard to this application. It does look like your production from the second well traumatic...or second wells traumatically

exceeds where your first wells were?

A. They have been on the increase, yes.

Q. Okay. And also it looks like the blue line, which would be in the decline mode has actually been pulled up by the second?

A. Yes, it is.

Q. And is that something that you've experienced in...not only in the Middle Ridge, but also in the Nora and the Oakwood when you drill second wells?

A. Yes, it is.

Q. So, this is just bearing out the engineering that caused you to infill drill?

A. That's correct. It does.

Q. Based on the data that you've submitted today, is it your opinion that it make good economic sense to drill second wells in the five units that are under consideration in the Middle Ridge application that we filed?

A. Yes, it does.

Q. And does it...in addition to the economics does it actually increase production from the units?

A. Yes.

Q. If you look at the last chart that you've submit to the Board today, what does that show?

A. That shows what your original production

would look like from the well and it also shows that we will gain an additional 175 million recoverable reserves from that unit.

Q. As a result of a second well?

A. Yes.

Q. Okay. And as we've indicated to the Board in the past, we would retain a 600 foot spacing within the unit?

A. Yes, sir.

Q. And the second well would occur within the drilling window?

A. Yes, it would.

Q. So, the orders would reflect that?

A. Yes.

MARK SWARTZ: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Mr. Swartz, we're going to label the entire handout or would you do it individually?

MARK SWARTZ: If we do it at one time, it would probably be good, but I always count on your sidekick for the ID. So, what---

SHARON PIGEON: In the holiday spirit, I will go with one label on the whole package although my preference is page by page.

MARK SWARTZ: I understand. What should it be

labeled?

SHARON PIGEON: AA.

MARK SWARTZ: AA.

SHARON PIGEON: Double letters on handout exhibits.

I'll go over that for you again here in a minute.

MARK SWARTZ: Okay.

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: I have a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: On your profile here, could you tell me what year this started and instead of the day of the...I'd like to have a reference when I look at these things that I have a year that I start instead of zero days. BB2005 or whatever.

LESLIE K. ARRINGTON: I'll just have to go back by the number of days.

MARK SWARTZ: The best we can tell you is if you look at the docket number of the Middle Ridge Rules, which is on this exhibit, it was 2000. So, it would be sometime after and the original was in October. So, it would be late...probably 2001 would be the earliest wells just to back into a rough date.

BRUCE PRATHER: Okay. That's fine. Thank you.

BUTCH LAMBERT: Any further questions from the

Board?

(No audible response.)

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: Motion to approve.

BUTCH LAMBERT: I have a motion. Do I have a  
second?

MARY QUILLEN: Second.

BUTCH LAMBERT: Any further discussion?

(No audible response.)

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

(All members signify by saying yes, but Butch  
Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain, Mr. Chairman.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank  
you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: The next item is a petition from  
CNX Gas Company, LLC for a modification of Nora Coalbed Gas  
Field Rules to allow more than one well to be drilled in  
units BD88, BD89, BE88, BE91, BF90, BF91, BG90, BG91, BH90,  
BH91, BE93, BE101, BF92, BF102, BG93, BG96, BG98, BG103,  
BH95, BH101, BH103, BI199, BI105, BJ98, BJ102, BJ104, BJ105,

BK99, BK101, BK105 and BL99, docket number VGOB-89-0126-0009-59.

MARY QUILLEN: I have a question, Mr. Chairman, on those.

BUTCH LAMBERT: Ms. Quillen.

MARY QUILLEN: Where there is a dash should that have include from 99...BL...or BK99 through 101, which include BK100?

BUTCH LAMBERT: Ms. Pigeon just pointed that out. Is that---?

MARK SWARTZ: The thorough...actually, you're going to have a map that will depict all of this, but it's actually...it's...the thorough means it's a piece of a roll.

BUTCH LAMBERT: Yeah. Okay.

MARK SWARTZ: I think...I mean, you can read it again, but I think the caption says that---.

MARY QUILLEN: The caption says that, but on the record it would be different is the reason I asked for clarification.

MARK SWARTZ: Right. And the map you're going to get says it as well. So, it's your call if you want to indicate that some of them are thorough or rely on the map that you're going to have as an exhibit today and the caption.

BUTCH LAMBERT: Okay. Let me clarify it then. This is BE93-BE101, BF93-BF102, BG93-BG96, BG98-BG013, BH95, BH101-BH103, BI99-BI105, BJ98-BJ102, BJ104, BJ015, BK99-BK101, BK105, BL99.

MARK SWARTZ: The area...the first area would include BE88-BE91 as well.

BUTCH LAMBERT: Okay.

MARK SWARTZ: I think you've got in the record now.

BUTCH LAMBERT: All right. All parties wishing to testify, please come forward.

MARK SWARTZ: Les Arrington and Mark Swartz. Les, do you want to pass out your exhibits here.

(Michelle Street passes out exhibits.)

BUTCH LAMBERT: Let's identify these before we get started since we've got a couple of different ones.

MARK SWARTZ: The group that has a number, let's call...a number of attachments, let's call that AA. Then the single map by itself, BB, if that works.

LESLIE K. ARRINGTON

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Les, you need to state your name for us,

again.

A. Leslie K. Arrington.

Q. And you're still under oath?

A. Yes.

Q. Okay. You've just testified with regard to an infill drilling application in a different field, the Middle Ridge Field, correct?

A. Yes, I did.

Q. Is the analysis essentially the same?

A. Yes, it is.

Q. Okay. And in this instance, we're talking about an area that it has more units but it's sort of the bad pink kind of in the middle of the map? Would that be the area that we're talking about today?

A. That's correct. It is.

Q. Okay. And that is an area that you're seeking to be allowed to drill a second well?

A. Yes, it is.

Q. Again, with 600 foot spacing from the first well?

A. Yes.

Q. And the second well would have to occur within the drilling window?

A. Yes.

Q. And this map, the page of AA actually shows the units and the windows?

A. It does.

Q. Okay. And it shows also a number of other areas that the Board has...the blue area immediately above and some areas off to the east that the Board has already allowed for infill drilling?

A. That's correct.

Q. And so you've got data available to you in the Nora Field to use to assess whether or not infill drilling is working?

A. Yes, we have.

Q. The second map, the BB map, has some black Xs sort of in the green section, kind of in the center of the map---?

A. It is.

Q. ---does that show...does that depict the units from which you've taken data and reported it on a well by well basis in Exhibit AA?

A. Yes, it is.

Q. Okay. So, that sort of locates the data wells in relation to the pink area that we're talking about today?

A. Yes, it does.

Q. Okay. And, again, you've given us, as you did in the last instance we've got...it looks like six wells here?

A. Yes.

Q. And in all instances you've got a red line which shows original...the original well production, I assume?

A. Yes.

Q. Well, I don't know, if you've reversed it on this one or not?

A. It is reversed.

Q. It is reversed. So, the red line is the original well and now the blue line would be the second well?

A. Yes.

Q. And in most instances, just eyeballing this, it looks like the second wells do better than the first?

A. Yes, they have been.

Q. And in some instances, actually kind of pull the first well production back up?

A. Yes, it does.

Q. And then do you have a summary exhibit here as well?

A. I believe it's the last sheet.

Q. Okay. The very last page?

A. Yes.

Q. And here we've...in an effort to always change colors and be as confusing as possible, in this one the last page, the blue is the first well?

A. Yes.

Q. And the red is the second?

A. It is.

Q. And this sort of captures the concept again and shows that collectively the second wells do, in fact, come on stronger eventually?

A. Yes.

Q. And perhaps, it looks here, I have actually elevated the production from the first well almost from the beginning of production for the second well?

A. They have.

Q. Okay. Based on the data that you've accumulated in the Nora Field, the Middle Ridge Field and the Oakwood Field, is it your opinion that being allowed to drill second wells in the drilling windows of the pink units is likely to enhance production and overall generate the same kind of results that we've seen in other areas?

A. Yes, we believe so.

Q. And is also...if we go to the second to the last page, is it also in Nora has it contributed to increased recovery?

A. Yes, about a 162 million incremental reserves.

Q. Okay. Slightly less than you experience in the Middle Ridge, but still substantial?

A. Yes.

Q. And, in fact, you've got approximately 20% increase?

A. Yes.

MARK SWARTZ: That's all I have, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: I have a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: I noticed on most of your displays here that either at the same time or immediately after that your old original wells went down to zero. Did you get...did you have interference in the original well formation at the time you frac them? Is that the reason that the old wells went to zero?

LESLIE K. ARRINGTON: Not...not to my knowledge. I see what you're talking about, but not to my knowledge that we did have in them.

BRUCE PRATHER: I mean, the results after looked pretty good.

LESLIE K. ARRINGTON: Yes.

BRUCE PRATHER: But I'm wondering why the wells went to zero?

LESLIE K. ARRINGTON: I can't answer that from the graph.

BRUCE PRATHER: Okay.

MARY QUILLEN: Mr. Chairman, I have one question.

BUTCH LAMBERT: Ms. Quillen.

MARY QUILLEN: There are currently just one well in each of those, correct, and this is the second well?

LESLIE K. ARRINGTON: This will be the second well within this area. The exhibit that we're showing you are---

MARY QUILLEN: Right.

LESLIE K. ARRINGTON: ---the second wells in that other area.

MARY QUILLEN: Right. But the ones that you're asking today, this will be the second well?

LESLIE K. ARRINGTON: Yes, ma'am.

MARK SWARTZ: Well, I think she's asking a question that you may not have appreciated.

LESLIE K. ARRINGTON: Okay.

MARK SWARTZ: I think she's...it sounds like she's asking you if there's already one well in all of the pink units. Do you know the answer to that?

LESLIE K. ARRINGTON: And there are not.

MARY QUILLEN: There are not?

LESLIE K. ARRINGTON: No.

MARY QUILLEN: Oh, okay. Thank you.

MARK SWARTZ: I thought we had a disconnect error.

BUTCH LAMBERT: Mr. Arrington, what would cause BE-104 to go to zero for almost 500 days?

LESLIE K. ARRINGTON: Well, it just appears that there may have been...I'm not real sure without having the actual data in hand, maybe a pump failure. It's hard telling what the problem could have happened there.

BUTCH LAMBERT: Any other questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Swartz?

MARK SWARTZ: No.

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: I'll make a motion to approve.

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, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: The next item on the docket is a petition from CNX Gas Company, LLC for disbursement of funds from a portion of Tract 1C for unit BD116, docket number VGOB-02-1015-1082-01. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, you're still under oath.

A. Yes.

Q. Do you still work for the same company that you did a moment ago?

A. Yes.

Q. Okay. This is a request for a disbursement from the escrow account pertaining to BD-116, correct?

A. Yes.

Q. And you filed a petition asking the Board to allow a disbursement from Tract 1C, is that correct?

A. Yes.

Q. And is this request because the folks in 1C or at least some of the folks in 1C have entered into a split agreement?

A. Yes.

Q. Is it a 50/50 agreement?

A. It is.

Q. Did you do an analyst of the escrow account records and your company's payment records to come up with the last page of the application, which is sort of the spreadsheet?

A. Yes.

Q. What did you compare?

A. The payment records that we had sent to Wachovia with Wachovia's records to make sure they accounted for all of the deposits.

Q. Okay. And when you did that did you conclude that Wachovia got all of...and recorded all of the

deposits that you had made?

A. Yes.

Q. Okay. Was this done as of a particular date, this balance?

A. September the 30th, 2009.

Q. Okay. So, if we were to look at it today it would probably be a different number because there would be continuing revenue?

A. Yes.

Q. Okay. Are you asking that the Board make a disbursement to two particular persons or companies?

A. To Daniel Kyle Hess and Mavis Maxine Hubbard and the Swords Creek Land Partnership.

Q. Okay. And have you set forth in the last page of the exhibit the percentages that the...that the escrow agent should use in the making the disbursement?

A. Yes. 5.2632% to Daniel Kyle Hess and 5.2632% to Mavis Hubbard. The sum of those to Swords Creek Land Partnership.

Q. Okay. And is it your recommendation or request that the escrow agent use those percentages rather than the dollar amounts when the disbursement is made?

A. Yes.

Q. And is it also your request that...you

meaning the operator be allowed upon entry of the order to start paying these people directly?

A. Yes.

Q. Meaning Swords Creek and Hubbard as opposed to escrowing their funds?

A. Yes.

Q. Do you need to give the escrow agent and the Board a less confusing exhibit?

A. Yes.

Q. Do you think it would be a good idea to put in 10.5264% instead of 50?

A. Yes.

Q. For Swords Creek?

A. Yes.

Q. Okay. And that would be consistent with your testimony?

A. That's right.

MARK SWARTZ: That's all I have.

SHARON PIGEON: Is this a partial disbursement from Tract C so it will need to be maintained in the escrow account?

ANITA DUTY: Yes.

SHARON PIGEON: We were talking and you may have addressed something that we were discussing. Here in the

next to last column on the owner's percent of escrow 50%,  
Swords Creek, I think you testified would be the sum of the  
Hess and Hubbard interest. But what's on this chart is 50%.

ANITA DUTY: Well, that's when I realized I had a  
problem. I'll send a new one in to---

SHARON PIGEON: So, we'll be getting a new one and  
that's the change that we will see is the---?

ANITA DUTY: Yes.

MARK SWARTZ: Right. It will say 10.5264%. Less  
opportunity for a confused escrow agent.

SHARON PIGEON: We're on the line all the time.

BUTCH LAMBERT: Any further questions from the  
Board?

(No audible response.)

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: Motion to approve.

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, but Butch  
Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz. The next item is a petition from CNX Gas Company, LLC for the disbursement of funds from a portion of Tract 1B, unit AA-8, docket number VGOB-90-1010-0032-06. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, you need to state your name for us, again.

A. Anita Duty.

Q. As part of your responsibility...job responsibilities to make these tract by tract calculations with regard to escrow?

A. Yes.

Q. Did you do that in this particular case?

A. Yes.

Q. Did you compare the operator's records to the bank's records?

A. Yes.

Q. And when you did that, can you tell the Board whether or not the bank's records indicated they had received and deposited every check that the operator had sent?

A. It did.

Q. Okay. And did you make that comparison as of a date certain?

A. September the 30th, 2009.

Q. And the second page of your petition has a spreadsheet that pertains to Tract 1B, is that correct?

A. Yes.

Q. And is Tract 1B the only tract that you're requesting a partial disbursement from escrow?

A. Yes.

Q. And will the escrow account with regard to this unit AA-8 need to be maintained after the disbursement?

A. Yes.

Q. On Exhibit...on the second page of the spreadsheet have you identified the companies and/or people that are going to be receiving disbursements?

A. Yes.

Q. And for...at least for the oil and gas owners, have you stated the correct percentage?

A. I have.

Q. With regard to the coal owner, do we need to make the same change that we saw on the last exhibit?

A. Yes.

Q. Okay. And what should the coal owner's percentage be? Should it be the sum of the oil and gas interest?

A. That's right.

Q. Okay. So, are you going to submit an exhibit to the Board which sums the oil and gas owner's interest, which are highlighted in yellow, and reports that instead of 50% with regard to Harrison-Wyatt?

A. Yes.

Q. And, again, that will make it clearer to the escrow agent?

A. Yes.

Q. Are you requesting that once the order is entered that the operator be allowed to pay all of these people directly in accordance with their agreement?

A. Yes.

Q. And their agreement, again, is a 50/50 agreement?

A. It is.

MARK SWARTZ: That's all I have.

BUTCH LAMBERT: Questions from the Board?

DAVID ASBURY: I'm not sure we have W-9s. Do you have W-9s for all of these?

ANITA DUTY: Yeah. I gave them...they're behind your Affidavit.

DAVID ASBURY: Okay, thank you.

SHARON PIGEON: Could you give us the sum that Harrison-Wyatt is supposed to get or did you just tell us it was going to be a totaled of those others?

ANITA DUTY: Yeah. Those weren't as easy. I just realized I had the problem.

SHARON PIGEON: Nor for us. That's why I'm asking the question.

MARK SWARTZ: Well, it's going to be whatever results in \$1,993.63.

SHARON PIGEON: As of September---.

MARK SWARTZ: Because that number is right.

SHARON PIGEON: As of September the 30th of 2009.

BUTCH LAMBERT: As of today.

SHARON PIGEON: Not that number.

BUTCH LAMBERT: Not that number. But as of today.

DAVID ASBURY: Anita, we only have two W-9s on that first one...from the previous one we only two W-9 forms. We don't have it for these. Did you attach them?

ANITA DUTY: Yeah.

DAVID ASBURY: To—?

ANITA DUTY: The mailing list. If you don't, I will get them for you.

DAVID ASBURY: Here they are.

DIANE DAVIS: We got them.

DAVID ASBURY: We got them. Thank you.

BUTCH LAMBERT: Other questions from the Board?

(No audible response.)

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: Motion to approve.

MARY QUILLEN: Second.

BUTCH LAMBERT: I have a motion and a second. All in favor...any further discussion?

(No audible response.)

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

(All members signify by saying yes, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: The next item is a petition from CNX Gas Company, LLC for the disbursement of funds from a portion of Tract 2C, unit AA-9, docket number VGOB-91-0430-0116-05. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

BUTCH LAMBERT: You may proceed, Mr. Swartz.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. Anita, you need to state your name for us, again.

A. Anita Duty.

Q. Okay. Did you do the document comparison and the spreadsheet with regard to this request?

A. Yes. They were in balance.

Q. Okay. The...this request for a disbursement affects one tract?

A. Yes.

Q. 2C?

A. Yes.

Q. And have you identified on the second page of your petition with regard to this hearing the names of

the company and people that are to receive funds when the escrow agent makes the disbursement?

A. I have.

Q. Is this a 50/50 agreement between these folks?

A. Yes.

Q. Is the escrow account going to need to be maintained after this disbursement because there will still be funds in it?

A. Yes.

Q. So, this doesn't close the account?

A. No.

Q. Are you requesting that after the Board enters an order, if it approves this disbursement, that the operator be allowed to pay the people who are listed in the spreadsheet directly rather than escrowing their funds?

A. Yes.

Q. Okay. Again, with regard to the oil and gas owners, have you identified with regard to each owner the specific percentage the escrow agent should use?

A. Yes.

Q. Okay. And, again, with regard to the coal, do we have the right or the wrong number?

A. Wrong.

Q. Wrong, correct?

A. Wrong. Wrong.

Q. And, again, it should be the sum of the numbers highlighted in yellow?

A. Yes.

Q. Which would be substantially less than the number you've reported?

A. Yes.

Q. And you're going to need file an amended exhibit here, correct?

A. Yes.

Q. Have you done the math to calculate the total that would be payable to Harrison Wyatt?

A. I did it quick. So, we can---.

Q. Okay. Your quick calculation is 3.1477%?

A. Yes.

Q. Okay. But in any event, you're going to check that map and submit a revised exhibit which will be for Harrison Wyatt, LLC the coal interest will be, since it's a 50/50 agreement, the sum of the oil and gas owner's percentage?

A. Yes.

MARK SWARTZ: Okay. That's all I have.

BUTCH LAMBERT: Any questions from the Board?

(No audible response.)

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: Motion to approve.

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, but Butch Lambert and Katie Dye.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you.

BUTCH LAMBERT: It's approved. The next item is a petition from CNX Gas Company, LLC for disbursement of funds from a portion of Tract 2C, unit BB-8, docket number VGOB-90-1010-0033-06. All parties wishing to testify, please come forward.

MARK SWARTZ: Mark Swartz and Anita Duty.

ANITA DUTY

DIRECT EXAMINATION

QUESTIONS BY MR. SWARTZ:

Q. State your name for us again, Anita.

A. Anita Duty.

Q. This pertains to unit BB-8, correct?

A. Yes.

Q. And it pertains to Tract 2C in that unit?

A. Yes.

Q. Is this a partial disbursement, meaning the escrow account will need to be maintained after the disbursement is made?

A. It is.

Q. Have you identified the oil and gas owners by name that are to receive the disbursement and have you highlighted the oil and gas owners on your spreadsheet in yellow?

A. Yes.

Q. And, again, we've got Harrison Wyatt Coal and you've shown 50%, correct?

A. Yes.

Q. And that number should be the sum of the oil and gas owner's percentages highlighted in yellow, which is---

A. 10.5744. Just a quick---

Q. Okay. And you will present the Board with a revised exhibit with regard to Harrison Wyatt's percentage to accompany any order that goes to the escrow agent?

A. I will.

Q. Okay. And did you make an examination of bank records and your internal royalty records to prepare the second page of this exhibit?

A. Yes.

Q. And as of September the 30th, 2009, were those records in agreement with regard to payments made and deposits received?

A. They were.

Q. And this is, again, a 50/50 agreement between these parties?

A. Yes.

Q. And are you requesting that the operator be allowed to pay the oil and gas owners and the coal owner subjected to this 50/50 split agreement directly after the order is entered rather than continuing to escrow their funds?

A. Yes.

MARK SWARTZ: That's all I have.

SHARON PIGEON: Did you testify that the coal percentage was correct on this one or not? It's not on this

one?

ANITA DUTY: All of these wrong.

SHARON PIGEON: Can we get another bank reconciliation sheet? On your plat, I don't see the second well. I'm I just not seeing it.

ANITA DUTY: The plat that is included in here from the repooling. At the time, it wasn't---

SHARON PIGEON: Could you correct that? Could you give us another plat to go with this since we're talking about two wells?

ANITA DUTY: It won't be a force pooling map. It will be a well plat.

SHARON PIGEON: Well, we're talking about two wells here in this disbursement, correct?

ANITA DUTY: Uh-huh. Yes.

SHARON PIGEON: So, we would like a plat to reflect that.

ANITA DUTY: Okay.

BUTCH LAMBERT: Any other questions from the Board?

(No audible response.)

BUTCH LAMBERT: Do I have a motion?

BRUCE PRATHER: Motion to approve.

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, but Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

KATIE DYE: Abstain.

BUTCH LAMBERT: One abstention, Mrs. Dye. Thank you, Mr. Swartz.

MARK SWARTZ: Thank you all.

BUTCH LAMBERT: The next item I'm going to call is item number three on your docket. It is a petition from EQT Production Company for the establishment of a provisional drilling unit consisting of 320 acres for the drilling of horizontal conventional gas well unit EQT 2619, docket number VGOB-09-1020-2619. All parties wishing to testify, please come forward.

MARY QUILLEN: What number is that?

BUTCH LAMBERT: Number three...item three.

JIM KAISER: Mr. Chairman and Board members, Jim Kaiser, Rita Barrett and Luke Shankin on behalf of EQT Production Company. We'd ask that the witnesses be sworn at this time.

(Rita Barrett and Luke Shankin was duly sworn.)

RITA BARRETT

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

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. I'll start with Ms. Barrett. Ms. Barrett, if you'd state your name for the record, who you're employed by and in what capacity.

A. My is Rita Barrett. I'm employed by EQT Corporation as regional land manager.

Q. And your responsibilities include the land involved in this unit?

A. Yes.

Q. And was everyone who was required to be noticed by statute, that being all oil, gas and coal owners, to your knowledge, notified?

A. Yes.

Q. And do we have some unknown entities in this unit?

A. Yes.

Q. And in order to affect notice on them, did we publish as required by statute?

A. We did.

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

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: I have a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: Rita, is this a Roaring Fork well?

RITA BARRETT: Yes.

BRUCE PRATHER: Okay. I won't be making any...I've got to abstain.

BUTCH LAMBERT: Further questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Kaiser.

LUKE SHANKIN

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

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Shankin, if you'd state your name for the Board, who you're employed by and in what capacity.

A. Luke Shankin, EQT Production as a

geologist.

Q. And your responsibilities include the land involved in this unit?

A. Yes.

Q. Now, in conjunction with the handout that you've prepared to help illustrate your testimony, would you explain to the Board why we are attempting to establish this unit for purposes of drilling a conventional horizontal well?

A. Yeah.

Q. Okay. So, this is our basic horizontal conventional unit handout. If you'll flip to AA, the proposal is a 320 acre unit with dimensions of 3733 X 3733 feet with a 5280 foot diagonal. There will be a 300 foot interior window with 600 foot standoff from adjacent grid horizontal wellbores. We should be able to drill the surface location outside the unit as long as production comes from only within the unit. A minimum of a 600 foot distance between the horizontal wellbore at any vertical well that producing from that same horizon. This will allow for multiple wells and/or laterals to be drilled for maximum drainage. In some cases, two or more wells may be able to use the same pad if there's terrain restrictions. BB just shows a diagram of this unit. Again, the 3733 feet X 3733

feet and a 5280 foot diagonal. CC just shows the benefits of the horizontal drilling. There's fewer issues with coal mining. We have less surface disturbance. We can more effectively extract the resource and laterals can reach into areas otherwise inaccessible by vertical wellbores. This could be terrain restrictions or with things like that. A Higher depletion rates, which lead to shorter lives of wells, and this will encourage future development of the resource. Now, DD shows this unit that we're talking about here, which is the EPC 2619, right over in Wise and Wise County. The other unit on here is actually from docket number twenty-nine on today's docket. The same testimony, you know, and the same packet. So, I just included that in this handout. Then EE shows the unit for docket number three with the surrounding wells. FF shows EPC 2652, which is again docket number twenty-nine on today's docket with its surrounding wells.

BUTCH LAMBERT: Anything further?

JIM KAISER: No further questions at this time of this witness, Mr. Chairman.

BUTCH LAMBERT: Questions from the Board?

MARY QUILLEN: Mr. Shankin, which well did you say was the well for docket number twenty-nine?

LUKE SHANKIN: For docket number twenty-nine, if

you'll look at page DD...Exhibit DD, the one that is labeled EPC 2652 is docket number twenty-nine. The EPC 2619 was docket number three today.

JIM KAISER: What he did was prepare one package for two different wells and I didn't ask Mr. Chairman to call them together.

MARY QUILLEN: Okay. I have a question on that EPC 2652. Is this going to be a Weir Sand---

BRUCE PRATHER: Horizontal?

MARY QUILLEN: ---Horizontal?

LUKE SHANKIN: It's possible. We haven't narrowed down the formations. We're still testing the rock---

BRUCE PRATHER: Okay.

LUKE SHANKIN: ---and different formations over here. But that is one of the targets that we're looking at in that area.

BUTCH LAMBERT: Any further questions from the Board?

DAVID ASBURY: Mr. Chairman, just for...to be specific on exhibits. We've changed everything for EPC to EQT.

LUKE SHANKIN: EQT. Yeah, we'll switch it. That's what it should be anyway.

DAVID ASBURY: If you don't care change it to EQT.

BUTCH LAMBERT: Any further questions?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

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

BUTCH LAMBERT: Do I have a motion?

KATIE DYE: Motion to approve.

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, but Butch Lambert and Bruce Prather.)

BRUCE PRATHER: Abstain.

BUTCH LAMBERT: One abstention, Mr. Prather. Thank you, Mr. Kaiser.

JIM KAISER: Thank you.

RITA BARRETT: Thank you.

JIM KAISER: Mr. Chairman, if I might at this time, since we're probably getting ready to take a lunch break, we do have some housecleaning that may help some people that are here.

BUTCH LAMBERT: Okay.

JIM KAISER: I would draw the Board's attention to item number twenty-two. If you want to call that, we are going to ask that that petition be withdrawn.

BUTCH LAMBERT: Okay. This is item number twenty-two on the docket, VGOB-09-1215-2646 to be continued until---.

JIM KAISER: To be withdrawn.

BUTCH LAMBERT: Withdrawn. I'm sorry, withdrawn.

MARY QUILLEN: Okay. I have a question. On this agenda, this was misnumbered. Number twenty-one was actually not...petition number or item number twenty-one was not numbered at the top of the page.

SHARON PIGEON: Yeah. We need to go by the VGOB number for sure. So, double check and make sure which one you're calling.

MARY QUILLEN: Because the number that you called---.

SHARON PIGEON: The docket numbers are off.

MARY QUILLEN: Right. Is number twenty-three.

BUTCH LAMBERT: Yeah. So, we need to go by your docket number.

SHARON PIGEON: Your VGOB docket number.

BRUCE PRATHER: The one that has no number on it,

what are we going to do with it.

BUTCH LAMBERT: We're going to have to go by the docket number and not the item number.

SHARON PIGEON: The VGOB number.

BUTCH LAMBERT: The VGOB number.

JIM KAISER: All of mine got numbered.

RITA BARRETT: Mine have numbers too. I'm showing that item number twenty-two is VGOB-09-1215-2645.

BUTCH LAMBERT: Okay.

SHARON PIGEON: Okay. So, that's shown on ours as---.

BUTCH LAMBERT: That's 46 on ours.

JIM KAISER: Huh.

SHARON PIGEON: So, you want 45, which is our---?

JIM KAISER: Yeah. VC-536201 is the well that we want to withdraw, right?

RITA BARRETT: Yes.

BUTCH LAMBERT: Withdraw, okay.

MARY QUILLEN: 6201?

RITA BARRETT: Yes.

JIM KAISER: Right.

MARY QUILLEN: Okay.

HARRY ANDERSON: What about the previous 44?

JIM KAISER: We're still going to hear that.

They're going to take a break for lunch. So, I'm giving them the stuff that we're going to withdraw or continue so that if there's people here for that they can leave. Are you with me?

HARRY ANDERSON: I'm not with you. (Inaudible.)

BUTCH LAMBERT: Okay. Anything else, Mr. Kaiser?

JIM KAISER: Yes. We'd direct you to docket number twenty-four, VGOB number 09-1215-2647.

BUTCH LAMBERT: Okay.

JIM KAISER: We'd like to continue that one until February.

BUTCH LAMBERT: Okay. Continue. Okay, this docket number VGOB-09-1215-2647 continued until February.

JIM KAISER: Then I'd like to direct your attention to item number twenty-eight, which is my docket number 09-1215-2651.

BUTCH LAMBERT: Right. This is docket number VGOB-09-1215-2651.

JIM KAISER: We would ask that that petition be withdrawn.

BUTCH LAMBERT: All right.

JIM KAISER: And then lastly, I would like to direct you to docket item number thirty-four, VGOB docket number 08-1219-2401-01.

BUTCH LAMBERT: Okay. VGOB-08-1219-2401-01.

JIM KAISER: And we'd ask that that item be continued until February.

BUTCH LAMBERT: That item will be continued until February.

JIM KAISER: That's all the cleanup that I've got.

BUTCH LAMBERT: Okay. All right. Thank you. At this time, we're going to take a break for lunch and we'll resume the hearing at 1:00 o'clock.

JIM KAISER: Thank you.

(Lunch break.)

BUTCH LAMBERT: Okay, ladies and gentlemen, it's time for us to start back. Before we go into the next docket item, I think Mr. Asbury has something that he would like to share with the Board and the group.

DAVID ASBURY: I do. Thank you, Mr. Chairman. Amongst all of some negative comments about the Board and some other things, there's an event that was very positive and I'd like to bring that to the Board's attention. On November the 17th, we had a Board member that was recognized as a member of the year of Professional Educators Society called PBK Chapter 1202. She was recognized for many things. I'd to read this from her director, it says, "From 1984 to 1991, I served as the site director of the

University of Virginia at the Southwest Center. Since leaving that office, I've had the distinct opportunity to work for some subsequent UVA Center Directors and numerous site directors from other colleges. In my role as executive director of the Southwest Virginia Higher Education Center, I have daily contact with this talented group of professionals. Over the years, I've learned which directors work best with students and which ones are team leaders and which individuals need coffee before they can find their office door. This informal assessment has lead me to draw to the following conclusions about Mary Quillen: 1) Mary Quillen consistently falls into the top quadrangle of these four categories. Her profound passion for improving K-12 schools through teacher and administrator training. Her furious grant competitiveness. Her enthusiasm and commitment for stem programs and extra ordinary knowledge of the coal and gas industries in Southwest Virginia. Mary also falls into the top categories for her unending tenaciousness, abundant energy and thoroughness. Mary Quillen's outstanding professional standards have always set the bar for me and our colleagues at the higher education center everyday. Your recognition tonight of her valuable contributions to education demonstrates the PDK remains at the same high standards of excellence." She congratulated

Dr. Mary Quillen for the member of the year, PDK.

(Claps.)

MARY QUILLEN: Thank you.

DAVID ASBURY: Do you want to tell us a little bit more about what PDK is?

MARY QUILLEN: Phi Delta Kappa is an organization of educational leaders. It's an international organization. We have a very active chapter here in Southwest Virginia. We have sixteen school divisions that have participants, superintendents, directors of instruction of those leaders from all of the school divisions here in this region. It's one of the oldest professional education leadership organizations that began as a local chapter and grew into a national chapter and then to an international chapter. They have professional...very high professional standards. They recognize leadership and the quality of educators at all levels in K-12 education, as well as in higher education. Thanks, David.

DAVID ASBURY: We very much appreciate your input on the Board and from the Division as well. We just wanted to recognize that fact as well. Congratulations to you.

MARY QUILLEN: Thank you. I appreciate that recognition. Thank you.

BRUCE PRATHER: Congratulations.

BUTCH LAMBERT: At this time, we'll be calling a petition from EQT Production Company for the pooling of coalbed methane unit VC-537094, docket number VGOB-09-1215-2644. 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: And, sir, would you state your name for the record, please? Mr. Anderson.

HARRY ANDERSON: Harry Anderson.

BUTCH LAMBERT: You may---

(Harry Anderson is duly sworn.)

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, if you'd state your name for the record, who you're employed by and in what capacity?

A. My name is Rita Barrett. I'm employed by EQT in Clintwood, Virginia as regional land manager.

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

A. They do.

Q. Are you familiar with EQT's application

seeking a pooling order for EQT well number VC-537094 dated November the 13th, 2009?

A. Yes.

Q. Does EQT own drilling rights in the unit involved here?

A. We do.

Q. Now, prior to the filing of the application, were efforts made to contact each of the respondents owning an interest within the unit and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What's the interest of EQT in the gas estate that's under lease in the unit?

A. 78.67%.

Q. And what is the interest of EQT in the coal estate under lease in the unit?

A. 100%.

Q. Are all unleased parties set out at Exhibit B-3?

A. Yes.

Q. So, that means 21.33% of the gas estate remains unleased?

A. That's correct.

Q. Okay. Do we have any unknowns or unlocatables in this unit?

A. We do not.

Q. Okay. In your professional opinion, was due diligence exercised to locate each of the respondents named herein?

A. Yes.

Q. And are the addresses, to the best of your knowledge, as set out in Exhibit B to the application the last known addresses for the respondents?

A. They are.

Q. Are you requesting this Board to force pool all the unleased interest listed at Exhibit B-3?

A. Yes.

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

A. I am.

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

A. Yes. Twenty-five dollar per acre bonus for a five year paid up term and a one-eighth royalty.

Q. In your opinion, do the terms you've just testified to represent the fair market value of and fair and

reasonable compensation to be paid for drilling rights within this unit?

A. Yes.

Q. Now, as to the respondents listed at B-3, that being the gas estate owners in Tract 6 in the unit, do you recommend that they be allowed the following statutory options with respect to their ownership interest within the unit: 1) Participation; 2) a cash bonus of twenty-five dollars paid up per net mineral acre plus a one-eighth of eight-eighths royalty; or 3) in lieu of a cash bonus and one-eighth of eight-eighths royalty share in the operation of the well on a carried basis as a carried operator under the following conditions: Such carried operator shall be entitled to the share of production from the tracts pooled accruing to his or her interest exclusive of any royalty or overriding royalty reserved in any leases, assignments thereof or agreements relating thereto of such tracts, but only after the proceeds applicable to his or her share equal, A) 300% of the share of such costs applicable to the interest of the carried operator of a leased tract or portion thereof; or B) 200% of the share of such costs applicable to the interest of a carried operator of an unleased tract or portion thereof?

A. Yes.

Q. Do you recommend that the order provide that elections to respondents be in writing and sent to the applicant at EQT Production Company, Land Administration, P. O. Box 23536, Pittsburgh, Pennsylvania 15222, Attention: Nicole Atkinson, Regulatory?

A. Yes.

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

A. Yes.

Q. Do you recommend that the force order provide that if no written election is properly made by a respondent, then such respondent should be deemed to have elected the cash royalty option in lieu of any direct or indirect participation?

A. Yes.

Q. Should unleased respondents be given 30 days from the date that they receive the recorded Board order to file their written elections?

A. Yes.

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

A. Yes.

Q. Does the applicant expect any party electing to participate to pay in advance that parties share of actual completed actual well costs?

A. Yes.

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

A. Yes.

Q. Do you recommend that if a respondent elects to participate, but fails to pay their proportionate share of well costs to applicant for payment of those costs, then their election to participate should be treated as having been withdrawn and void and that respondent should be treated as if no initial election had been filed under the pooling order, in other words, deemed to have leased?

A. Yes.

Q. Do you recommend that the order provide that where a respondent elects to participate but defaults in regard to the payment of well costs any cash sum becoming payable to that respondent be paid to him within 60 days after the last date on which the respondent could have paid their share of the actual well costs?

A. Yes.

Q. Do you recommend that the order...does the Board need to set up an escrow account for this unit?

A. They do.

Q. And what tracts need to be escrowed?

A. Tracts 2 and 6.

Q. Okay. And who should be named operator under any force pooling order?

A. EQT Production Company.

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

A. 2,303 feet.

Q. And what are the estimated reserves over the life of the unit?

A. 310 million cubic feet.

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

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs?

A. Yes.

Q. Could you state both the dry hole costs and completed well costs for this well?

A. Yes. The dry hole costs are \$200,154. The

completed well costs are \$420,527.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. It does.

Q. In your professional opinion, would the granting of this application be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes.

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

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Mr. Anderson.

HARRY ANDERSON: Yes. My name is Harry Anderson. I'm speaking on behalf of my family. One member is here today. The other two are out of state. We own a 131 acre tract of property, which will be affected by this well, which is 537094. We are presently unleased. So, this pooling order would take in...of the entire grid we would have about, what, 20...22%?

RITA BARRETT: 21.

HARRY ANDERSON: 21%. Okay. Something like that.

JIM KAISER: 21.33.

RITA BARRETT: Yes. And it 12.54 acres.

HARRY ANDERSON: Okay. So, we just have some questions related to this to be addressed to EQT just for reassurance more than anything. We're not here to contest the pooling order. We just want some reassurance before this take place. One question that I want to ask up-front. You said we have thirty days to choose...to opt whichever selection we make from when we receive notification from the Board?

JIM KAISER: When you receive the recorded Board order, right.

HARRY ANDERSON: On the actions taken on the pooling?

JIM KAISER: Right.

HARRY ANDERSON: Okay.

RITA BARRETT: And that will come from Mr. Kaiser's office asking an election from you.

HARRY ANDERSON: Okay. All right. Before I ask some question, I want to---

JIM KAISER: Huh. I'm sorry. Yeah, that...Mr. Asbury's office will send us a copy of the recorded order

and then we'll---

HARRY ANDERSON: Okay.

JIM KAISER: ---take that and we do an election letter that we put with the order that explains your options.

HARRY ANDERSON: Okay. And then we have thirty days from that?

JIM KAISER: And then...yeah, you have thirty days from the date you receive that. You check your options and sign it.

HARRY ANDERSON: Okay. I want to congratulate Ms. Quillen. I'm a former educator also. Sometimes appreciation is hard to come by. I think I got a rocking chair. This is a little bit bigger than a rocking chair. I want to commend the Board on their...well, on their earlier questions concerning royalty statements. I think, you know, more information is needed along those lines. My brother and I share a portion of another well, a conventional well. There's not much information on this issue. So, I hope you really study that and give it your full attention. I appreciate your questions, Bruce, on that...Mr. Prather. Yeah, the questions now and we'll get out of the way here. First of all, when payments are escrowed and we're sure those will be until we resolve the other issue, are payments

based on the contract price or are they based on Dominion Index Price or what price are they based on?

RITA BARRETT: They're based on the price that we receive when we sell the gas. I'm not sure what the index is that we use. I'm not in marketing. So, I can't answer that question.

JIM KAISER: We can find that out for you though.

RITA BARRETT: But we can find out for you.

HARRY ANDERSON: All right. So, you'll give us that?

RITA BARRETT: Yes.

BRUCE PRATHER: The price is usually different every month.

HARRY ANDERSON: Yeah. But it's a contract price between you and the buyer, is that correct? It's not just a general price---?

RITA BARRETT: Yes, and it fluxates.

HARRY ANDERSON: ---or an average price?

RITA BARRETT: No.

BRUCE PRATHER: If you have your gas head, then the price is always the same during the period that you have it hedged. If it's not hedged, then you're in the stock market and it goes up and down every month.

HARRY ANDERSON: But we can...I mean, that would be

easily obtainable and sent to us, right, as to what it---?

JIM KAISER: It will be on royalty or working interest statement.

BRUCE PRATHER: It should be on your statement.

JIM KAISER: Yeah, it will be on your statement.

BRUCE PRATHER: Sure.

HARRY ANDERSON: Okay. So, even during the escrow period, will we receive that information?

RITA BARRETT: If you elect to participate in the well or be carried in the well, which you've indicated that you're interested in being...at payout, you will get a working interest statement and your escrow you won't...unless you ask for it...I mean, if you ask for it each month we can provide you what's in the account.

HARRY ANDERSON: Yeah. We would like notification of the escrow and the price...you know, anytime its in escrow, the escrowed amount and then price if that was based on---.

RITA BARRETT: Okay.

HARRY ANDERSON: And we would like an answer which price it's based on. Number two, can we be assured that you will provide us with receipts for well...if we elect...especially if we elect to be a carried operator, that you will provide us with receipts for well construction costs

and notify us when the well is completed?

JIM KAISER: Well, if you elect to be carried, then you'll never be charged any expenses.

RITA BARRETT: Until 200% payout.

JIM KAISER: No. He won't be charged then.

HARRY ANDERSON: I thought it was 200% of the total cost of the well.

RITA BARRETT: Oh, no, no, no. I see the question. If you elect to be carried, you don't have to pay anything.

HARRY ANDERSON: Right. I know.

RITA BARRETT: But once you're back in as a working interest owner, if we do any additional work to that well, let's say if we had to rework, we would have to send you a statement of what those actual costs were because your working interest would be responsible for your proportionate share of those costs going forward.

JIM KAISER: I think probably your question is Mr. Anderson is if you elect to be carried, how will you know what 200% is?

HARRY ANDERSON: Right.

JIM KAISER: In other words, we...I guess---

RITA BARRETT: Yeah, we can---

JIM KAISER: ---they can provide you with the final actual completed well costs and then you would multiple that

times two and then that's when your working interest would kick in once the proceeds---

HARRY ANDERSON: That's exactly---

JIM KAISER: ---reach that.

HARRY ANDERSON: That's absolutely what we want. I know you have an estimated cost and hopefully it will be less. It may be more. But whatever that final completed well cost is we would like have---

RITA BARRETT: The actuals.

HARRY ANDERSON: ---and then we'll know... obviously, we should be kept up then to date on when...when you recoup 200%. Okay.

RITA BARRETT: Yeah.

HARRY ANDERSON: So, yes. We would like to have monthly statements on production and revenue. But I think even...is that possible even before we begin to receive any moneys or...the four of us? Can we have a monthly production and revenue?

RITA BARRETT: We'll try...we'll try to accommodate that. I can't...I mean, since...I mean, you're in the well either way, if you're pooled or not.

HARRY ANDERSON: Yeah.

BRUCE PRATHER: That's not a normal protocol.

HARRY ANDERSON: Well, that's why I asked.

RITA BARRETT: It's not. But we're just trying to accommodate him because we are working with him on leasing his additional acreage in other units.

HARRY ANDERSON: And that might be negotiable. We might be able to get that some other way without you having to mail it to us.

RITA BARRETT: Yeah.

BUTCH LAMBERT: Mr. Anderson, can I interject here just a second? Are all of your questions directed to EQT and your interest in the well?

HARRY ANDERSON: Yes.

BUTCH LAMBERT: I think that what we need to is to...since you have no objection to the well or to the pooling, what we need to do is to go ahead and vote on this order and let you work with them independently because what you're asking the Board can't really help you with.

HARRY ANDERSON: Okay. All right. I have one question that might pertain to you then.

BUTCH LAMBERT: Okay.

HARRY ANDERSON: All right. Our tract is in a...at least as pristine as possible in the coalfields of Southwest Virginia. We have a pretty nice little piece of property stuck right in the middle of former Pittston property. On our property we have the headwaters to Frying Pan Creek,

which is a tributary to the Russell Fork River. There's timber and other resources. We're concerned about those things, you know, at the present time. Are there...is there an (inaudible) in place, I guess, that you guys might be the enforcement agency on that would guarantee as much as possible that there would be no adverse affect on our property?

BUTCH LAMBERT: I would ask---

HARRY ANDERSON: They're not going to enter our property as it is now. We've not leased our property. So, is there a protection for us?

BUTCH LAMBERT: That was the question I was going to ask. Is the well on his property or---?

RITA BARRETT: We have actually moved this well location to accommodate him and get it off of any...there's not going to be any surface disturbance on his property at all.

HARRY ANDERSON: Okay. There wouldn't be an adverse affect on the water...the watershed or anything else?

JIM KAISER: No. There's a water protection string casing---

HARRY ANDERSON: Okay.

JIM KAISER: ---that's required in the permitting

process.

BUTCH LAMBERT: And in---.

JIM KAISER: And I assume that if they're going to...if they're still trying to negotiate a lease with you, I'm sure they might be able to do non-surface use lease. I don't know.

RITA BARRETT: Unh-huh.

JIM KAISER: You can't?

HARRY ANDERSON: Yeah, we're still in the process. We're not like...it's not an adversarial relationship. I mean, I get along well with EQT. It's just a matter of a few things that we've got to...we're working on it, right?

RITA BARRETT: We are working on it. And like I explained to Mr. Anderson, we're all property owners too, you know, and we want our questions answered just like he does. So---.

BUTCH LAMBERT: And just to let you know, Mr. Anderson, through the permitting process that Mr. Asbury is in charge of doing, they look at things like disturbance, sediment and erosion control, the protection of water and those type of things are part of the permitting process.

RITA BARRETT: And, Mr. Anderson, you should have received a copy of the permit application. We applied for permit on this well November the 10th. So, the permit

application will have a lot of the information as far as roads, pipelines and such.

HARRY ANDERSON: I'm getting a little age on me. I forget sometimes.

RITA BARRETT: That's okay. I do too. But he has our address in Big Stone Gap and I've invited him to come over and sit down with us and we can go through all of his additional questions.

HARRY ANDERSON: Yeah. These questions can be addressed...okay, I appreciate---

BUTCH LAMBERT: Okay. And if you don't get some satisfaction, please come back before the Board.

HARRY ANDERSON: Okay, I will. I'll certainly do that.

RITA BARRETT: I appreciate it, Harry.

BUTCH LAMBERT: Thank you, Mr. Anderson. Anything further, Mr. Kaiser?

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

BUTCH LAMBERT: Do I have a motion?

KATIE DYE: 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 Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

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

JIM KAISER: Thank you.

RITA BARRETT: Thank you.

JIM KAISER: Are you going to go to First Bank & Trust?

BUTCH LAMBERT: Yes.

RITA BARRETT: Okay.

BUTCH LAMBERT: At this time, we're going to move around on the agenda just a...once again. I noticed the folks from First Bank & Trust are with us today. I would ask if they would come forward at this time. Give us recommendations on the escrow account. We'd ask you to please state your name for the record.

LEYTON HARDING: Yes, sir. My name is Leyton Harding. I'm the executive Vice President of First Bank & Trust Company.

DEBBIE DAVIS: Debbie Davis. I'm the Trust Officer with First Bank & Trust Company.

TOM DAVIS: Tom Davis. I'm Vice President and Senior Wealth Management Manager for First Bank & Trust Company.

KAREN McDONALD: And Karen McDonald, Trust Investment Officer.

BUTCH LAMBERT: Thank you, ladies and gentlemen. First of all let me say congratulations on your successful bid to manage the escrow account. As you have heard here this morning, we're going to be depending upon you a lot. We'll have a lot of questions for you in working with Mr. Asbury. We're looking forward to a good working relationship.

LEYTON HARDING: Mr. Chairman and members of the Board and staff, on behalf of the bank and our Board of Directors and our shareholders, we'd like to thank the Board for allowing us this opportunity to serve. Being headquartered here in Southwest Virginia, we know the important resource that energy plays not only in terms of the development for our country, but also as revenue for our citizens. We appreciate the work that the Board and the staff are doing. To us, our most important goal is to do our very best to accommodate the needs of all of the

participants in terms of the program. Years ago when I worked for the Virginia Bankers Association, we used to schedule a convention every summer. I won't name the properties. But we would go to one property and as staff, we would meet with the hotel folks, and they would ask us how do you want it to be done. We would give them input. Then...they would say that's great and we'll go do it. How do you want us to do it? We would go to another property and they would say, here is how we do it. I can tell you as a staff person and for someone who is responsible to all those bank presidents and everybody else, I preferred the first versus the latter. So, in many respects, Mr. Chairman and Board members, you know, it's very, very important for you to tell us how you want it done. We can be very flexible in our approaches. We want to make sure that we share adequate and accurate information to make sure that things get accomplished in the manner you wish. In addition to that, in preliminary dialogues with staff, we've indicated some additional technological advancements that we think will assist in monitoring the process the payments and so forth and our folks here today will be happy to begin a dialogue and continue that dialogue as time goes on.

Mr. Chairman, we have prepared and handed out to members of the Board and staff, some materials including an

outline. As you made reference, Mr. Chairman, you have deviated from your agenda. We'd be very happy at any point to deviate from our agenda pursuant to the direction of the Board or members. But we thought that this would be a good beginning place in terms of providing information to the Board. This sort of concludes, if you will, our my opening remarks. I'm going to let Mr. Davis who heads up our Wealth Management Group sort of take it from there. Ms. Davis and Ms. McDonald also here are the key people who worked with this Board and the staff in term of this program. Again, thank you very much for this opportunity.

TOM DAVIS: My thinking about this meeting is very much getting prepared for the first of January when we become the escrow agent. So, we're going to have some thoughts. We're going to lay those thoughts out. We want to know are we going in the correct direction or are we just all wet, in which case we would have to redirect ourselves. One of the more difficult parts of this is the conversion. There's 800 sub-accounts or something like that. Debbie Davis has been working with the staff to work on that and I thought the first part would be for her to tell you what the status of that is.

DEBBIE DAVIS: I have met with David and Diane and kind of got their thoughts on how to make the transition

smoothly and to provide them with the reporting and all of the information that they're going to need going forward. I do receive from Wachovia a breakdown of each well unit. We have 95% of those already set up for sub-accounting. So, we are ready just to receive the cash in and go forward. I do tell David and Diane prior to the moneys coming, you know, I want them to look over our records to make sure we have everything set up to their specifications to make sure everything is going to come over smoothly from Wachovia. We have talked about some new technology aspects for them. They will be able to actually view the checks that are deposited on a daily basis from their computers and their offices. We will scan those and it will be readily available to them, which should help in their day to day processing.

LEYTON HARDING: And you may add also in terms of their ability to look at the account online as well.

DEBBIE DAVIS: Yes. They will be able to look at balances on a daily basis for each unit via the internet.

LEYTON HARDING: Disbursements and those things as well.

MARY QUILLEN: Mr. Chairman, I have one question for you. Are you using some software like Image Now to scan those?

LEYTON HARDING: Madam, if I could address that. Our bank on the commercial bank side, we have around 500 clients that use what is a feature called remote deposit. For example, Mr. Parker at Washington County and Mr. Holmes in Augusta County physically do not come to the bank. They scan checks and send them to us. What we want to do is we use the same technology and allow Ms. Davis and her staff simply to electronically make deposits instead of physically taking to the teller line. As soon as they scan them in their office, we would have set up to Mr. Asbury and appropriate staff so that they can see immediately what items we have scanned before it's even available for me to look at on the bank records. So, it's a technology that we've actually had this in place for about five years. A lot of small businesses use this and all government entities. Also, we use this same service for our brokerage division that Mr. Davis works with and we have thirty-five other banks throughout the east coast that utilize and have these same scanners in their bank to make deposits as well.

MARY QUILLEN: And it's very high level security?

LEYTON HARDING: Yes, ma'am. It's a 128 bit inscription. We...you know, there's a variety of, you know, passwords. You know all of those kinds of things that you have to utilize. In terms, you know, of all of the

government RFP and so forth, we've passed all of those things with flying colors. Yes, ma'am.

MARY QUILLEN: Excellent.

TOM DAVIS: As a further double check, my concern is that the records go from Wachovia to our records and that they be correct. So, what I've told our internal audit staff is once David and Debbie and all of them have approved it and say that it's right, I'm going to have them come in and do an examination of that to make sure that they're right. I mean, because we've got this start correct. So, to me that's sort of a double check. If you all want auditor involved in that, that's perfectly fine.

BRUCE PRATHER: I have a question.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: This morning, we agreed to do an audit of this account. If there are irregularities in that audit that we're going to be doing, will that affect any of your business?

TOM DAVIS: I don't think so. What we're going to be doing is checking to see that what comes from Wachovia to us is in agreement.

BUTCH LAMBERT: Okay.

TOM DAVIS: And what you're looking at is what might have occurred prior to that and then you'll tell us,

hey, the numbers are wrong or something.

DEBBIE DAVIS: Yeah, any discrepancies once they're reported to us we can work with the staff to make what necessary corrections to make those correct as they should be.

BRUCE PRATHER: Good.

TOM DAVIS: The next thing we wanted to do is develop an investment policy and this would be the blueprint under which we would operate the escrow account. We want to do it as you want us to do it. So, we have in your papers...actually, it's right under the agenda the CV...the statement of investment policy. Now, a lot of it is just quoting sections of the Code of Virginia by...I doubt that you all would want to deal with that today. We can if you wish. But it's there. I think that ultimately that we will need to have that direction from you just to make sure that we have some kind of a guidepost on this is what we're doing. Now, there's parts of this that includes some things that we're not going to use right now. But we're trying to develop this from the standpoint of the future too. We can always change it. But this should cover us for years to come and sets the stage the investment of the accounts.

The next part that we wanted to set up was to give you some ideal of where we are with the economics of things

because that will determine on how we go forward or how we think we will go forward. We're pretty much dealing with the short-term as the escrow fund is concerned. We're not talking long-term investments. It's all short-term because the money comes and the money goes out and we understand that. But there's still opportunities to take advantage of some other investment vehicles that are out there. So, I'll give you the short version, but it's...this is economics. In our view, the Federal Reserve became expansive with the money supply in February of '09. That means they were putting enough gas into the system to make it grow. Now, if one of them was sitting right here, they would tell you that they did it early in 2008. Our view is that they're wrong because there were excess reserves built up, so the money wasn't going into the system. When the money supply becomes expansive, you would expect the economy to start to grow six to nine months later. Well, that worked pretty good. I mean, we're expanding. The numbers are working. One of the things that you're going to be concerned about is future inflation. Inflation lags even more. Inflation usually lags two years. So, if February, 2009 was the point that the money supply became expansive, then you would expect inflation to be rearing its head on an underlying basis in February of 2011. Now, how this impacts you is if the

Federal reserve waits until February of 2011 to address that inflation that is in the system that whatever they do will then take two years to have an impact. It's way too late. They need to start doing things much earlier than that. Our best estimate is right now, nobody knows, but our best estimate is it will be in the third quarter of 2010 that the Federal reserve will be looking to raise rates. Now, the big question is politically are they going to be able to do that? The economy is not going to be robust at that point. If Bernakie tries to raise rates, there are going to be some members of Congress and the administration that are not going to be happy with that. So, it will be interesting to see how that plays out. But important point of this is the longer they wait the higher rates have to go to stop the inflation. That's just the way it has always been. Long rates will begin to rise when the economy is proven to be on a sustainable growing basis. The long term investors are going to be concerned about inflation. They are not controlled by the Federal reserve. That's controlled by just guys who invest long-term, the market. But short-term what you need to be concerned because the type of investments that you make are short-term in nature. That was just music for my background. It's...you know, it's a question of when does it start to go up and that's really

guesswork now. It will at some point, but it might be delayed. You know, we just have to wait and see how that goes. So, the approach will to a huge extent be trying to...you've got a short-term need that we need to keep a lot of cash liquid in the early years, but once we get beyond that, we're thinking in terms of having a laddered approach. A laddered approach means five years out having some mature, four years out maturing, three years...so there's always money coming in and as we get new money putting some of that towards the end of that line. Does that make sense? Okay, and as long as we have what's called an up sloping yield curve, meaning the further you go out the higher the rate, that should be helpful. We realize that the Board went pretty to a cash position I think it was last year. We're not sure exactly what the reasons for that...what the reasons were. We'll be very interested to hear that. But this kind of approach is what seems to make sense to us. That sort of the overview of what we're thinking. We're now going to go into some of the specific types of investments. To give you a feel for where rates are, if you go beyond the policy, there's a sheet in there that was...last night what the Treasury yield curve looks like. If you'll come to 12/14 you can see that it's pretty low rates. You know, when you start talking thirteen weeks and .04, that wouldn't

cover our fee. So, that's not a good thing. By the same token you can just see that it...the further you go out it increases somewhat. We're going to have some recommendations as we did in the original proposal as some things we might do with that.

One of the first things we need to talk about is the catch all account. The cash account, the money market fund. We went in and looked four different money market funds that we thought would be suitable for the Board. Interestingly if it was...if I was in your shoes, I would be thinking, oh, I want one that's all Treasuries. Well, we looked at that. It pays zero interest. So, I lost my enthusiasm. If you look at the four funds that's Federated, the highest fund is .08. So, we've been trying to think we need to do better than that. Leyton, do you want to explain the account that we're talking about?

LEYTON HARDING: One of the aspects when we met with the Board previously was the interest in the FDIC insurance coverage. But let me also stress as the escrow agent, our first and primary responsibility is to maximize in the safest manner possible for the Board and for the owners and the recipient who would benefit the interest rate. Well, as Tom has illustrated here, right now in money market mutual funds that are made up of Treasury bills, you

know, looking 0% rate, actually Treasury rates had been even negative because peoples' interest in just making sure their money is protected. The FDIC has passed special regulations that remain in affect through June 30 of 2010 and those special regulations basically say that any transaction account is completely FDIC insured through June 30. So, we have a window of opportunity here to afford to the Virginia Gas and Oil Board or Karen McDonald citizen or Russell County or anybody else complete FDIC insurance on a transaction account. Right now, our bank makes overnight funds anywhere from 20 to 25 basis points or one-quarter percent. So, what we are proposing to the Board today is that during this interim period of time as you're looking at what you want to do investment sides and so forth knowing that, for example, that the Virginia LGIP Fund is paying 24 basis points. These Treasury funds are paying 0. What we would simply do initially is to offer a transaction account paying one-quarter percent, which would be the same amount as we would earn through the bank and have complete FDIC insurance. There's not a term limitation on this. If these Treasury rates jump up and if we can on a short-term basis get a higher rate than what we can on the bank's side and it be completely in Treasurers or if another sort of fund comes along that would produce a better rate, what we're looking

at here simply is the fact is that we want to maximize the return that we can perhaps generate for the Board on a very short-term basis, pass through 100% FDIC coverage and there's no limitation. If you may recall during our previous testimony before the Board, we told you through the CEDARS program that we get up to \$50,000,000 in CDs. Now, it's a separate program. That's where we work with around 2700 banks around the country. We still want to pursue that and intend on presenting those as alternative for investments. But what we want to do here during the short-term is take advantage of this. At least show a positive return of 25 basis points, which is more than the money market. You know that our fee is 10 basis. So, we're showing a positive return and it will allow the Board and our investment staff to come up with some good solid short-term investments for you while still having a positive return, FDIC insured. That's one of the things that we've included here with you today for your consideration. Again, we want to provide the Board, knowing your fiduciary responsibility, again, what other funds are that would compose a Treasury look at. That rate that I'm referencing is purely an internal rate that we said we're basing it purely on what we could earn. It's a wash for us. We're not going to make any extra money on it. We're basically

passing through to the Board to the Virginia Gas entity what we would make on it. So, zero...so, we net zero on that, but we show a positive return for you.

TOM DAVIS: Yeah, one of the things that happened as we were putting this together, I sort of cornered Leyton on this and I said, "Are you guaranteeing that rate them?"

(Laughs.)

LEYTON HARDING: And I said, "Yes."

BRUCE PRATHER: I've got a question.

TOM DAVIS: Yes, sir.

BRUCE PRATHER: If you change the investment from one of these money making funds to another is there a penalty?

LEYTON HARDING: Like for the withdrawal?

BRUCE PRATHER: Yeah, for the withdrawal.

LEYTON HARDING: In terms...do you want to address, Tom? To take the money from a money market fund---

TOM DAVIS: Well, not from money market funds, but if you're talking CDs then the certificates of deposit then they have the penalties just like any other. So, we have to be very careful that if we're putting it there that it's not money that we're going to need. So, that's how come...on the short end...I mean, if there was no penalty, shoot we'll put it all there.

BRUCE PRATHER: Yeah.

LEYTON HARDING: Well, and again, Mr. Prather, in terms of as we move into this, you know, on or about, you know, January the 4th or whatever, there's going to be a lump sum amount cash that's going to be distributed to us. At that point, what we want to do is to show a positive return as we work to undertake with staff and the Board the investment of this. A little bit later, Tom and Karen have put together some hypothetical outlines for you which include FDIC insured investments, CEDARS investments that we talked about previously and also Treasurers. Again, our key from the escrow agent's standpoint is to in a safe and sound manner to maximize the return. Sometimes that may involve certain activities on the commercial bank side of First Bank & Trust, but it also will involve money not being on that side and long term there's not an expectation on the part of First Bank & Trust Company for the Virginia Gas and Oil Board to have any...any kinds of investments or deposits with us unless it is the most economical and rate best initiative on the part of the entity itself.

TOM DAVIS: And we looked at the Virginia pool and their rate right now is 24 basis points, but that seems to be declining and that's how come I was asking the question about guaranteeing it for the six month period. And at the

end of the six month period, we'll have to see where we are. Hopefully, that will be extended, but if it's not then we'll have to do something else.

LEYTON HARDING: But, again, also...I'm sorry, ma'am. Our feeling is that hopefully within a six month period of time that has allowed us to undertake certain investments, you know, that are prudent and at the direction and understanding of the Board and the staff. Yes, ma'am.

MARY QUILLEN: This six month trial period, do you think that is sufficient to get our portfolio set up and in order and, you know---

TOM DAVIS: Well, we've got two scenarios. One of which you do it over...almost on a quarterly basis and before the end of the year we would have that done. The other one is get it done right away. Our recommendation is to do it over the year, but we've got two scenarios and it's pretty much what the Board wants to do, but we can get it done pretty quickly, but it's does that make sense.

LEYTON HARDING: The six month, the June the 30th, 2010 that we're referencing is based upon the FDIC rules as they currently exist. Now, having said that, after June 30 and that FDIC...let's say that they said, no, we're going to return to our normal rules where a checking account or any other kind of transactional account only has \$250,000 at

that point, you know, we have the options of funds, such as the ones that we're showing you here or the fact that if any money were to remain in the bank through our escrow arrangement here, we would simply collateralize that pursuant to Virginia Code standards. So, at no point would these funds either not be FDIC insured or collateralized pursuant to Virginia Code based upon whatever amounts, if any, would remain at the of...by June 30.

MARY QUILLEN: That collateralized---

LEYTON HARDING: Yes, ma'am.

MARY QUILLEN: ---that raises a red flag.

LEYTON HARDING: I understand.

MARY QUILLEN: We had concerns about this in the past. Now, who would be responsible for those funds that were collateralized?

LEYTON HARDING: Well, let me...well, in terms of the bank, I mean, we have to do reports to the State Treasurer Department and things and we have to provide collateral. Now, the other alternative to that, and let's go back and revisit the CEDARS Program.

MARY QUILLEN: Right.

LEYTON HARDING: The CEDAR Program allows us to have up to \$50,000,000 in FDIC insurance for any client. Let's say June 30 rolls around and we happen to have, you

know, a few million dollars left over or whatever the dollar amount that has not been invested, using Tom's analogy of the latter and we can go out and we can literally place these funds into one month CDs that would be FDIC insured at whatever the rates were at that point in time. So, there is still the capacity for us to have complete FDIC insurance, but again I don't know what the rates are going to be on June the 30 and, you know, how much you have. But we could still have complete FDIC insurance, but the taking advantage of the FDIC rules on transactional accounts would disappear at that point in time. We would have, I think, a better sense of that as we move closer to June 30 and have the dialogue with the Board and staff as to what preferences you may have.

MARY QUILLEN: And these accounts could be set up, they would fall under that as individual accounts under that \$250,000?

LEYTON HARDING: Well, these nice thing is that under the CEDARS program instead of having to have one certificate of deposit per unit and those kinds of things, we can have in essence one sort of master certificate of deposit or a series of certificate of deposits that would have FDIC insurance and an aggregate up to \$50,000,000. That's correct. Yes, ma'am.

MARY QUILLEN: Right. Right. Right. Yeah. So, we're covered whatever direction we go and it gives us some time---?

LEYTON HARDING: That's correct.

MARY QUILLEN: ---to decide, you know, because these are...these are big decisions?

LEYTON HARDING: Yes, ma'am, they are and that's why we wanted to make sure that the Board, the staff and the beneficiaries of the plan would have, you know, a comfort level of knowing that it's FDIC insured through this initial program that we're talking about and it gives us plenty of time to structure the investments. There's not a right or wrong answer here. I mean, you can pick up yield, but you pick up risks. There's a lot of advantages to the FDIC insurance versus maybe collateralization or independent securities. Again, we're not telling you there's a right or wrong answer because a lot of it preference of the Board and staff and the direction that you want us to take.

MARY QUILLEN: Well, your presentation gave us a comfort level that you realize what our responsibility is and we want to take care of these funds that belong to these owners. We want to make sure that they are protected and that they are safe. That's our biggest fear---.

LEYTON HARDING: Yes, ma'am.

TOM DAVIS: And I think that when you read the investment policy, you'll see that we understand that. I mean, the primary goal is safety.

MARY QUILLEN: And we were impressed with that and that's why we went with First Bank.

BRUCE PRATHER: Would I be wrong in assuming that the best way to handle this thing is over a six month instead of doing it all at once that he previously---

TOM DAVIS: Well, we'll show you the scenario, but we have two scenarios. One is over a year.

BRUCE PRATHER: Yeah.

TOM DAVIS: One is right away.

BRUCE PRATHER: From what he's talking about, it sounds to me like his approach would be over a period of time.

TOM DAVIS: And I think it would...part of what you have to understand is there is a lot of investment vehicles that are available to you. We're discounting a number of them right now because they don't pay anything that's worth doing. Six months from now Treasury bills might be the way to go. Treasury bills being what I consider being the safest investment in the world. But, you know, right now at .02% I don't think I'd buy them. That's what typically happens in economical turmoils. Treasury bills in a

depression they sold at par. Traditionally sell it at discount. In December of last year they were selling at par, which means no interest. But right---

LEYTON HARDING: And I think the good news that we're trying to, I guess, get across here is there was a lot of flexibility and at any point in time, for example, putting money in CEDARS or having it FDIC insured is the complete option. But we want to make sure that the Board and for staff that we give you as much information during this transitional period that you're making very good decisions and structuring things that accommodate, as Ms. Quillen, the interest in safety, but also...I mean, I could make it really, really safe and we can put it all in CEDARS and I can pay you 10 basis points and cover our fee and you're not going to lose anything, but conversely, you know, we're not generating any sort of return that may be beneficial for subsequent heirs or beneficiaries to this. So, there's a lot of things that we have to consider.

TOM DAVIS: Anyway, there are a lot of vehicles. We put a definition of the different types of investment types in here so that if you wanted to go back in there and look at those that you can take a look. Where some of those things, I would say to you are not part of our strategy right now, I can't tell you that a year from now or two

years from now that they won't be. Like corporate entities right now, I'm probably going to stay away from. In fact, I know I am. But...because you just don't know. It's still a lot of turmoil out there. With that, let's get into the scenarios and we've talked a lot about the \$250,000 and when you get into our scenarios, which are the last couple of pages, you'll see a lot about \$245,000 or if they go to a 100 that they are 95. We're going to be getting payment on these CDs monthly interest. But if a bank were to fail before we got that monthly payment we wouldn't have coverage if we were up to the 250. So, if we go to 245 we're insured for that also.

LEYTON HARDING: Plus the interest.

TOM DAVIS: Okay. Karen.

KAREN McDONALD: Okay. I want to begin by just saying that this is purely a hypothetical scenario. We are testing waters. As Tom said, we have eliminated some things in the short-term that the Virginia Code allows you to invest in that have levels of safety. But they may not be right for the moment. So, what we have tried to do in the two scenarios are to throw something to you and get some feedback. We haven't...our assumptions are we will have a rising interest rate environment over the period of our contract with you. But as Tom said, the visibility is so

poor right now, we're watching inflation. But in this environment with our investments, we're leaning more towards a heavier weighted short-terms investment strategy. We're talking five years with you. But where as in a higher rate environment, we might want to lock in more on the long end of the five years. Now, we anticipate rates to go up. So, we don't want to have the money all locked in immediately and miss the opportunity as the rates rise. So...and I understand that five to six million is what you feel we need to keep in the money market or in this First Bank account or in highly liquid whether it's a one month CD like Leyton mentioned. There's not any right or wrong to what we've offered you in the scenario. It's just something to begin a discussion with. So, just today we were able to place in here, and this is a quarterly...I've done four months...four quarters of a presentation because in a raising rate environment you want to have some flexibility. So, we will not go out, unless you want us to, and invest all of the money by January the 15th. But the first quarter, our anticipated---

LEYTON HARDING: You might tell them what pages you are on.

KAREN McDONALD: Yes. I'm looking at the January through March the 31st page. That we start out with a lot

of cash and because we have just decided that we can offer you this 25 basis points yield in our accounts, I'm applying that to the 8,000,000, but I also wanted to highlight the availability of 90 day commercial paper. Commercial paper we failed to include one sheet when we bound your report. It's a little towards the front. You can access it. It should be loose. It shows you some seven day, fifteen day and up to 90 day commercial paper with names you recognize like General Electric and Toyota Credit. These we have been made aware by the Virginia Code of the quality of ratings that we need on corporate.

LEYTON HARDING: Well, and I just wanted to add, as Karen said, again, this is simply a beginning point. Say for example, it does not mean that you have to utilize 90 day commercial paper. But in terms of your evaluation and fiduciary responsibility we wanted you to see what some of those things looked so that on a comparative basis if someone said, why do you have this in an account with First Bank earning 25 basis points when you can look and say well if we went to the market we could only get 18 basis points. Yes, they're high quality companies, but they're not FDIC insured. But, again, we want to give you all of the information that you need to fairly assess the situation.

KAREN McDONALD: All right. Thank you. And so as

we move through the month ahead, we can do six month, nine months or twelve month CDs. Again, be weighed more heavily in the near term and hopefully as these mature a three month CD or a six month CD that will have a better option in September or December. So, I've just chosen random numbers here. But just to give you a sense of what the options are and that we wanted to have something short to work with this first year. When I say individual CDs, these are in your packet. We've already passed that section. But there are lots of CDs available to us where we can monitor the amounts that we do invest and do the 245,000, have FDIC insurance and do these through other resources that we have outside of the bank's CEDARS program.

LEYTON HARDING: If I could add there, again, some of these certificates of deposits based upon the rate that are being offered could be with other local organizations. Again, although we may compete with, you know, organizations here in Southwest Virginia or wherever, if we happen to have some money that came due, Karen and her staff knowing that we might want to put some money in a six month certificate would probably look around locally and, you know, hypothetically this could be with some more other organizations. Now, again, we'd want to maintain the FDIC insurance cover for the account, which meant...and I'll pick

on (inaudible) he's a good friend of mine, if we put a six month certificate at X rate with Miner's Exchange then we may not go back to them for a bid on a one year certificate simply because we know we would exceed the FDIC insurance levels of that organization. So, the key here for us is achieving both the balance of the coverage and also the rate and simply making sure that, you know, we get that and without sort of excluding any sort of provider as long as they meet the FDIC insurance coverage level.

TOM DAVIS: And what I think is the real key is and what we're trying to show you is that we've got a lot of options available to us. We're going to be trying to work for the Board for the escrow account and finding ways to generate income and yet, again, the first thing is safety and then within that trying to come up with income that is generated. If you go to the fourth quarter sheet, you'll see that at the end of the year if all of these rates worked out there would be an estimated annual income of \$362,000 and that more than covers our fee unless you want to renegotiate.

KAREN McDONALD: And that's...and that's where you can see the progression of the rising interest rate environment and the impact on your annual income but that was not our first focus. Our first focus priority was to

look at the insurance issue. I have put on all four quarters of the first scenario government agencies. We have some definitions and information in the packet that talk about what are direct obligation of the Federal Government and what are just a moral obligation of the Federal Government. The Federal Home Loan Bank and the Federal Farm Credit Bureau are direct obligations of the U. S. Government. Freddie Mac, which I have included there as much as for point of discussion as anything, is not a direct obligation but is a moral obligation. Again, this is testing the waters on your level of risk tolerance. It's not...it's not as risky as cooperates, but this is what we need to know from you. Is that something that...Ms. Quillen, you're body language tells me---

MARY QUILLEN: Yes. That word really makes me nervous.

KAREN McDONALD: Okay. Well, that's an important point to note.

MARY QUILLEN: Yeah. Yeah.

KAREN McDONALD: Because see we can begin to...out to the side on all four scenarios you'll see that there are...I've done them chronologically, so the last Federal Home Loan bank that's earning 2% that matures in June of 2013 that puts us at three and a half years. That's where

we start to see the benefit of the yield. But there is not  
time or reason to how we've allotted the cash...the dollars  
invested in this government agencies except to, again, weigh  
them more heavily to near term maturity in order to take  
advantage of rising interest rates. Before we go to  
scenario two, are there some comments and questions?

TOM DAVIS: Yeah, I was just going to say just so  
that they would know that...it also does not have the direct  
obligation of the United States Government. Besides Freddie  
Mac there's also Fannie Mac.

KAREN McDONALD: Which I did not include.

TOM DAVIS: Yeah. That's just a (inaudible).

BRUCE PRATHER: I've got a question. We have  
securities with Wachovia right now. Will Wachovia sell  
these securities and give you cash to begin with or are they  
a carry over of these securities into your management?

TOM DAVIS: They are in funds totally. So, they  
don't have bonds or CDs or that kind of thing.

BRUCE PRATHER: Okay.

TOM DAVIS: So, yes, what we expect to receive on  
the day that we receive it, which will probably be December  
the 31st---

LEYTON HARDING: The first of January.

TOM DAVIS: ---is cash money.

LEYTON HARDING: And as anticipation that's what we talked about having this account that even if we get 24,000,000 or 23 or 25,000,000 in cash we'd put it in this and it would be FDIC insured. Then from there, we're making 25 basis points at 4%, it's more than the money market funds and it's FDIC insured and now we can start wheedling away at appropriate investments as directed by the Board.

MARY QUILLEN: Just one question on this, now as we're moving into these other investment areas, as you do this and you will be making these decisions, you...will you be coming to the Board to keep us informed on what...you know, how this is progressing and these investments and the time line and that sort of thing?

TOM DAVIS: We're expecting to be here on a quarterly basis, but we would not make any severe change... that's not the right world---

LEYTON HARDING: Dramatic.

KAREN McDONALD: Drastic assumptions.

SHARON PIGEON: Drastic.

TOM DAVIS: Drastic change until we've talked it over with you. It's...understand that we share your concern for the safety factor. We're not going to do something---

MARY QUILLEN: Well, we have that confidence in you.

LEYTON HARDING: If I may add, another aspect in terms of reporting that we eluded to is that Debbie will be setting up so that staff will have access on a daily basis online to review all holdings. In addition to that, Tom mentioned that the fact that right now that you are in funds. Well, as you can see here, basically what we're looking at is basic securities of deposit. So, when we provide information to staff or to the Board, you know, instead of saying Fund X that has all of these other things in there, you'll be able to look and say, oh, here is a CEDARS certificate with First Bank & Trust or here's a CD at, you know, bank X or CD at bank Y and so they will be enumerated as to what your specific holdings are. You'll look at it and you'll have a clear understanding here's the certificate and here's when it matures and here's what the interest rate is.

KAREN McDONALD: We will not be using mutual funds...bond mutual funds or, of course, equity mutual funds. So, it will be easily identifiable. You won't have to worry whether you've got a City Bank bond in your portfolio.

MARY QUILLEN: Uh-huh. Okay. That was---

KAREN McDONALD: But we want some very substantive guidance from the beginning to know...to have a base line

and then monthly or if we can wait a quarter to have the communication again we do not want to overstep our bounds because we're here to serve you. Once we know the perimeters that you're comfortable with, we can begin to move forward and you would check us each quarter in this environment where things are hopefully continuing to improve, we would get a sense of your risk level and your confidence in what we have done to take the next step.

MARY QUILLEN: I personally, you know, would like to have, you know, contact with you on probably more frequently at the beginning as all of this is going and then go to the quarterly report because they will be getting this...they will have all of that information that they would be---.

LEYTON HARDING: Madam Quillen, we are prepared to be here monthly, if you meet twice a month or if you meet every other Sunday, we'll be here. But that's fine with us. Again, we serve at your pleasure. So, during this initial phase if the Board and staff feel like you would like for us to be here monthly and to kind of gradual do things, we'd be happy to do that.

TOM DAVIS: The challenge there is that he leaves in Emory and I leave in Stanton.

(Laugh.)

KAREN McDONALD: But if you turn to the fourth quarter in the scenario one, October the 1st through December the 31st you will see that we will have built a number of CEDARS maturity in the 12 months and in the three year range and so there will be significant CEDARS participation fully. All of the certificate of deposit are will be FDIC insured and then, of course, the money market or the interest account with First Bank would be FDIC insured and we would not need to use the 90 day paper if you were not comfortable with it because risk is more of an issue with longer maturity. Thirty day or sixty day paper is not as high of a risk with a corporate as it might be. But it depends on what is competitive and what your risk tolerance for the whole portfolio is. But then you'll see that I've made some assumptions on government agencies and we're locking in lighter maturities at above 2% with the Federal Home Loan Bank maturing in June of 2013 and 2014. So, those are assumptions. Those are not...we do not what the yields will be on those when it comes time in September or...I mean, we don't...we just can't predict how...how those rates will look.

MARY QUILLEN: Just off of the top of your head, do you know what those rate are today? Are they---?

TOM DAVIS: It's these---.

LEYTON HARDING: These are the---

MARY QUILLEN: Oh, these are?

LEYTON HARDING: Yes, ma'am, what I was going to say is what Karen did in putting together...I mean, she has worked on this over the past couple of weeks. So, there might be some slight variations now, but these are good ballpark numbers as we speak today. But as Mr. Davis mentioned, if we do see some improvement in the economy, our biased both on the bank basis as well as our well management group is our bias is that we're at the low point, wouldn't you say, Tom, in interest rates?

TOM DAVIS: Yeah. I mean, how are you going to go down from zero?

MARY QUILLEN: Yeah.

LEYTON HARDING: So, that's part of the reason for trying to stay more short-term. We have the same device for our other clients both in the bank as well as within the Wealth Management Group.

TOM DAVIS: You have to realize that this is...we're talking about where we are. But as time goes along, it's going to change.

MARY QUILLEN: Exactly. We hope.

TOM DAVIS: Yeah. Well, from this prospective we will. It's...you know, but I remember back in '81 Federal

Farm Credit administration issued a four year and three month and a six month and I was trying to get my clients to buy the four year and three month, but it was only 17---

LEYTON HARDING: %.

TOM DAVIS: ---% and the six month was 17.85.

LEYTON HARDING: In 1981, what was it, Tom, the thirty year Treasury paid 14%.

TOM DAVIS: 14.30 something.

LEYTON HARDING: So...but---

TOM DAVIS: I mean, if we come with a recommendation, you know, we're doing it for a reason.

KAREN McDONALD: So, I feel like in the scenarios that we have presented we have tried to honor your risk tolerance but not settled for the easy way of just putting the money in one place. We have given some variety...variety of names and vehicles and a variety of maturities. The October through December what is in the reddish brown ink are purely hypothetical. The others are all numbers that I have gotten off of documents that you will see in your packets.

MARY QUILLEN: Well, I... personally appreciate, and I know the Board does looking at the variety of the dates of maturity on these investments because we don't want everything locked up to any, you know, extended period of

time because the hope is and what we're really working with the companies is to try and get this money out of escrow. We want to try and get it in the hands of these folks that have been escrowed and we don't want to have to delay that because our money is locked in to a long-term obligation that we're going to be penalized if we have to use it.

LEYTON HARDING: That's right. And I think that is our bias is to be more conservative towards liquidity for that very reason. We're your agent. Your responsibility is not to us. Your responsibility is to the beneficiaries of the units.

MARY QUILLEN: Right. And that's what we're doing our very best to do and to understand and to make sure that that happens.

BRUCE PRATHER: I've got a question. Is there any kind of a flag that specifically putting most of this stuff in Federal papers would if say the stock market dropped precariously down to almost nothing, do these type of securities they don't feel the affect of it until at a later date so that we would have some sort of a warning---?

KAREN McDONALD: You will see these are priced daily, the government funds.

BRUCE PRATHER: Right.

KAREN McDONALD: So, on your statement...that's a

very good question. On your statement you may see them priced, if we bought a \$100,000 Federal Home Loan Bank it may be priced at 98. But that is the daily market fluxation. We hold to maturity or until the bond is called by the issuing agencies. If it's called, you will receive a 100% of the value. If we wait until maturity, we receive a 100% of that value. So, there is not a risk of losing the principal. And then in the meantime, of course, you're earning interest twice a year.

BRUCE PRATHER: The reason I asked that question, I felt like we rode Wachovia down too far. I don't want that to happen. In the future, if there's anyway that it can be handled a head of time or, you know, that we were notified then we made the proper decision.

KAREN McDONALD: So, you actually had a corporate... you had corporate bonds or---?

BRUCE PRATHER: What did we have in that, David?

DAVID ASBURY: It was not corporate bonds. It was mostly in T bills---.

MARY QUILLEN: T bills.

DAVID ASBURY: --and some money market---.

KAREN McDONALD: When you're in...excuse me.

DAVID ASBURY: That's okay.

KAREN McDONALD: When you're in a mutual fund type

of investment you do not have the control of the daily market value that you do when you buy individual bonds. Is that accurate to say, Tom?

TOM DAVIS: Yeah. And what happens is that if we buy a bond that's 4% and through market changes now it's 4 and a half to sell it we have to make that equal to 4 and a half. By the same token if we buy it at 4 and the rate slips to 3 and a half, we want to be paid if we're selling. So, that's just the daily fluxations. But as Karen says, if it is called you get the par value and if it matures you get the par value and realize that we're talking no greater maturity than five years. So, it's not going to be like it's a thirty year bond where you can see the big drop if rates went up. It's really going to be relatively short and laddered...all the time laddered so that---

LEYTON HARDING: So, you'd have funds from (inaudible). Another aspect of a mutual fund would be a money market mutual fund or any other kind of pooled investment is you may not want to sell today. You know...you look at the underlined securities and you say, well, if we waited another 90 days these things...or a 180 days will all mature and we'll get our money back. But if other members around this table decide well we're not waiting and we're going to sell, then that fund manager

would have no choice but to try to liquidate and therefore take funds back in. One of things that we try to do for our clients, typically a client who has the resources that are available through this escrow account is it give us the opportunity to diversify, which is extremely important not only from the nature of investments, the time of investments, but also we kind of...I want to say we cocoon you in a way, but we basically say you're making decisions on your own and you don't have to be, you know, making...you're not going to see an impact. If Debbie decides she wants to sell her fund, that's fine. It has no impact on your account. There's great things about funds because it allows people to diversify and so forth. The down side is you also at their beck and call too if they decide to sell. In this arrangement here, the only decision about selling would be made by the Board in conjunction with the escrow agent on specific securities through proper diversification both time and so forth. That should not have to occur.

TOM DAVIS: And the only ones that are really going to fluxuate in value are these bonds, the government bond. CDs don't because there's no market. That's just straight. And the money market funds, I mean, it's just...it's just what its value is is what it is.

BUTCH LAMBERT: Any other questions?

TOM DAVIS: Well, thank you all very much.

BUTCH LAMBERT: Thank you.

DEBBIE DAVIS: I have one other item. In our proposal, we did have a one time account set up fee of \$5,000 and I would like to submit that to you all to forward that on to Wachovia for payment.

DAVID ASBURY: It's on a contract basis. And we need Board approval on that, Mr. Chairman.

TOM DAVIS: And then at some point you will let us know when in January we're back.

BUTCH LAMBERT: Mr. Asbury---

SHARON PIGEON: The third Tuesday.

LEYTON HARDING: Always the third---

BUTCH LAMBERT: The third Tuesday of the month.

LEYTON HARDING: It is on Blackberry from here forward. For at least five years.

KAREN McDONALD: So, in the interim, we will have the funds for a couple of weeks we should just place them in the money market---

LEYTON HARDING: No the transaction account.

KAREN McDONALD: ---I mean, in the transaction account that is earning 25 basis points?

TOM DAVIS: Would you prefer to do that or pretty

much go ahead as we've outlined and...I mean, it's up to you all.

BUTCH LAMBERT: I think what I'm going to do is open the Board for discussion amongst the Board and then I'll call for a vote on which option to take.

TOM DAVIS: Okay.

KAREN McDONALD: Okay.

DAVID ASBURY: As far as scenario one or two?

BUTCH LAMBERT: As far as scenario one or two.

TOM DAVIS: Well, she was saying to wait until our next meeting to...but I would think that that's not what Ms. Quillen was saying. That she was saying get started and let us know where we are.

BRUCE PRATHER: Yeah. If you get the money on the first of January and we don't have our meeting until the 18th of January---.

TOM DAVIS: Right. So---.

BRUCE PRATHER: ---so there's eighteen days---.

MARY QUILLEN: Yeah.

TOM DAVIS: And you would want us to proceed.

BRUCE PRATHER: And, you know, if some decision has to be made of what to do with that money during that eighteen days, I think that's a valid point.

TOM DAVIS: But, I mean, we could do it either way.

We could leave it there in cash until that time or we could proceed to start to do some stuff and then come back on the 18th and say all right here's what we've done so far.

BUTCH LAMBERT: As I understood, one of the options though was to receive the money---

LEYTON HARDING: Yes, sir.

BUTCH LAMBERT: ---and put in for six months and use that six month option and that will give us time...you time to develop more investments options and give the Board time to consider it.

LEYTON HARDING: Yes.

SHARON PIGEON: Up to six months.

BUTCH LAMBERT: Yes. That's right.

SHARON PIGEON: You could come at any month, say today and change it.

BUTCH LAMBERT: I understand that. I understand. But that's what---

LEYTON HARDING: Yes, sir. Basically, again, on or after the first of the year we receive the funds and if it's the pleasure of the Board then we would put it in this transaction account at a quarter percent FDIC insured. From that point, whether you direct us move ahead immediately or over the one year kind of scenario that Karen and Tom have outlined or over a sort of a hybrid of that based upon on

conversation with the Board at subsequent meeting that is fine with us. The opportunity to invest in other bank CDs or our CEDARS program is there from day one. The opportunity to invest in other kind of government instruments is there from day one. So, one of the aspects there to keep in mind is, you know, the opportunity to maybe achieve a little bit higher return through some fo these investments if we begin to put the money to work sooner than later.

KAREN McDONALD: And in response on the investment policy at the January meeting would be probably enough time. We're not going to do anything that would disrupt---

BRUCE PRATHER: You're referring on a quarterly basis or on the long-term basis investments?

DEBBIE DAVIS: No. The investment policy at the very---

KAREN McDONALD: The investment policy is just a draft for your consideration.

BRUCE PRATHER: Oh, okay.

KAREN McDONALD: And if there's something in there that gives you heartburn or that you don't understand or that you don't feel is your responsibility or we need to clarify our responsibility that would be very helpful to have feedback on in January.

LEYTON HARDING: And, again, that's just a working draft for the Board, but we have utilized this in the past with many of our clients.

BUTCH LAMBERT: So, what we really need to consider today is if we want you just to move the funds to hold the funds---?

LEYTON HARDING: Yes, sir.

BUTCH LAMBERT: ---in an account or use the six month option to earn the one-quarter and give us time to look at this and make some decisions?

LEYTON HARDING: Yes, sir.

BUTCH LAMBERT: Okay. Is everybody okay about that?

BRUCE PRATHER: That's fine.

BUTCH LAMBERT: Okay. Given those two options then, do I have a motion from the Board of which option we should take?

KATIE DYE: Yes. I think the second option. I'd make a motion that accept the second option.

SHARON PIGEON: The transaction account?

KATIE DYE: The transaction account, yes.

BUTCH LAMBERT: Okay. Mr. Prather and Ms. Quillen, did you all hear the motion?

BRUCE PRATHER: No.

BUTCH LAMBERT: Could you make it again, Mrs. Dye?

KATIE DYE: Yes. I make a motion that we choose what I believe Mr. Lambert offered as the second option, which is the transaction account where we would earn the quarter percent and we would have from now until the June the 30th to---.

BUTCH LAMBERT: With the understanding that we have this to look at and the sooner that we come and make a decision---.

BRUCE PRATHER: We're not tied into for six months before---.

BUTCH LAMBERT: No, no.

MARY QUILLEN: I would like to amend it to not...to take off the six months.

SHARON PIGEON: He told you the six months is what the rate is good for and the insurance is good for now. And it may be extended or may not be extended. But she's not saying going for six months. She's saying utilize it.

DEBBIE DAVIS: You could say the decision needs to be made before that six months is up.

BUTCH LAMBERT: Yes.

SHARON PIGEON: Right.

MARY QUILLEN: Right.

SHARON PIGEON: And it could be made at your next

meeting, but you've got currently that long under those conditions.

MARY QUILLEN: Well, we need to make the motion that---.

BUTCH LAMBERT: Ideally, we come back in January and have an investment option. But it's open to us to make that decision until July.

LEYTON HARDING: And I think, Mr. Chairman, what we would do during the coming months is each time we come back is provide information as to where rates are currently and give you...so you feel comfortable with where things are going and say yes we feel at this point we want to give you the authority to make certain kinds of investments in CEDARS or other CDs or short-term governments to achieve a better yield than one-quarter of 1%.

BUTCH LAMBERT: So, I have the motion.

MARY QUILLEN: Will it be amended to take out that deadline of the 30th...of June the 30th that we have...we have that period of time to make these decisions?

BUTCH LAMBERT: Well, that's what they're offering us.

BRUCE PRATHER: Their option is---.

BUTCH LAMBERT: We have six months to make the decision.

BRUCE PRATHER: Yeah.

BUTCH LAMBERT: We can make the decision at any time between now and the end of the six months.

SHARON PIGEON: Yeah, she didn't make the motion to say that you have to wait six months.

BRUCE PRATHER: Yeah.

SHARON PIGEON: That just included how long this option---.

BUTCH LAMBERT: How long.

SHARON PIGEON: ---is available currently. You can change your position in January when you meet again if you want.

LEYTON HARDING: And, again, the key for us and hopefully for the Board is not so much that we are trying to put any kind of arbitrary time line---.

MARY QUILLEN: Right.

LEYTON HARDING: ---it's just that the FDIC insurance coverage is unlimited for transaction accounts goes away June 30. And at that point in time, let's say maybe even at the June meeting hypothetically if there's still outstanding issues, we would just need to discuss what strategies we want to put in place to make sure that the Board was comfortable with the security of the investments.

BUTCH LAMBERT: Okay. So, I still have the motion

on the table.

BRUCE PRATHER: I'll second it.

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 Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Carried. That's the way we will proceed.

LEYTON HARDING: Yes, sir. And, again, Mr. Chairman and members of the Board and staff, we appreciate. We know that Debbie and our group will be working a lot with you all over the coming weeks to make sure that we have a smooth transition. And, again, we'll be back here the third week in January. Again, we'll work with David and Diane to make sure that the appropriate communications take place.

DAVID ASBURY: We certainly---

DEBBIE DAVIS: I did want to bring forth one more thing. Distributions in the future, we will need new updated W-9s since Wachovia has all of those old records and

to begin our records. Once we receive that for a first time, then we should be going good going forward.

BUTCH LAMBERT: Mr. Asbury, would you draft a letter to send out to all of the companies involved in the escrow that we will be asking for new W-9s?

DAVID ASBURY: Yes.

BUTCH LAMBERT: Okay. Thank you all.

KAREN McDONALD: Thank you very much.

BUTCH LAMBERT: We appreciate it.

BRUCE PRATHER: Thank you very much.

DAVID ASBURY: We'll also need a Board vote approval for the---.

BUTCH LAMBERT: Yes. Could you pass that down, please?

DAVID ASBURY: Thank you very much.

KAREN McDONALD: Thank you.

DAVID ASBURY: We look forward working with you.

BUTCH LAMBERT: Okay. As another matter of business while we're on the escrow account, we will need a vote by the Board to go ahead and approve the \$5,000 payment before the setup fee?

DAVID ASBURY: That's correct. And it was...Mr. Chairman, this was in their contract or part of that proposal.

BUTCH LAMBERT: So, do I have a motion to---?

MARY QUILLEN: Motion to pay the set up fee for the new escrow account with First Bank & Trust.

BRUCE PRATHER: I'll second it.

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 Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Motion it carried. Mr. Fogleman, I would like to move to your docket item since we've had you waiting so long. Do you know which item, Mr. Fogleman---?

JOHN FOGGLEMEN: No, I'm not going to say anything. No, I'm here observing right now.

BUTCH LAMBERT: Okay. All right. Thank you, sir. At this time, I'd like to call the next item. We need to back up one. The Board on its own motion will hear testimony from EQT Production Company clarify previously issued order under docket number VGOB-08-0819-2301. All parties wishing to testify, please come forward.

BRUCE PRATHER: Which one is this?

MARY QUILLEN: Number twenty.

JIM KAISER: I'm going to have to do some jumping jacks or something to get going again.

BUTCH LAMBERT: Well, we can take a break and do that. You may proceed, Mr. Kaiser.

JIM KAISER: Our witness in this matter will be Mr. Luke Shankin. I'll remind him that he has already been sworn. Mr. Chairman and Board members, this was an item that was first before you in August of '08. Then...it was before you in June of '09 or July of '09. Where we've got a location exception, to refresh your memory, it's a stacked unit...a stacked horizontal unit where we sought and received a location exception to be able to have one of the laterals cross into both units. At that time, our testimony regarding how we were going to pay royalties was that we would pay each owner and each unit on a pro-rata share. Since that time, I think my client had a meeting with Mr. Asbury. There was some discussion regarding how that would be paid. I think based upon that discussion he took leave to put this item back on the docket for further discussion. I think that...is that pretty accurate as to where we are?

DAVID ASBURY: Yes, sir.

JIM KAISER: Mr. Shankin will be our witness. He

has put together a handout specifically for this particular purpose and this particular testimony. At this time, I'd ask him to go ahead and present it to the Board.

LUKE SHANKIN: Okay. So, what this handout is, the first couple of pages we'll go through here is the exact handout I used the last time, just kind of a refresher so everybody is up to speed on what we did. What got approved were some issues that we kind of saw that might arise with the way that approve the exception and then kind of our proposal at the end of this for you guys to consider. Again, if you look at AA, this exception was for well 539991. This is a proposed 3850 lateral to be drilled in a northwest direction and it's going to cross from one previously established 320 acre unit into another. The goal of this well was to closely follow the design of well VH-531020 to the north. This is the well...that's the well already drilled directly to the north in length and direction. Part of the reason for this is 531020 is one our better horizontals and we'd like to kind of mimic that in design on this well. So, our plan was to start the lateral in conventional horizontal unit to the south, which was VGOB-08-0819-2301 and cross into the conventional unit to the north, which was VGOB-08-0819-2303. The well design was approximately 375 feet to build the curve. We'd enter the

target formation, which was the Lower Huron shale in this case after that 375 feet. Then there would be approximately 1725 feet of producible lateral in the southern unit and 1750 feet of producible lateral in the northern unit. We would maintain a 300 foot interior window on all other edges of the unit except where we would be crossing and maintain a minimum of a 600 foot distance from vertical wells that produce in the same formation. BB just shows the location of those two units that we propose to cross. CC shows that well design. Again, the well on the northern part of here, that 531020 is an already drilled lateral in the Lower Huron Shale. The location directly the south here, the 539991 is what we're proposing crossing from one unit to the other. Now, DD...here I'll have to apologize. There was some formatting issues with the computer. But all of those little squares essentially if you removed them just shows that as being one large unit. Again, if you look at EE on the following page, this is what we have as approved in July. One...this was our understanding that once 539991 was drilled and producing the two 320 acre units would be combined and both 539991 and the existing well 531020 would begin to pay the 640 acre as if it were one large unit. There would be no back payment of royalties on the 531020 to the entire 640 acre unit. It would just begin paying those

royalties moving forward from the turnaround production date of the 539991. This would kind of set in place a process that if a horizontal well crosses from one established unit into another that these two units would be combined and almost form one large unit for all of the wells that are involved in those two units.

MARY QUILLEN: Mr. Chairman, I have a question on this. The 640, is this original proposal that you submitted that was...that you had asked for an exception to make this a 640 acre unit and we said, no, that would set a precedent that that's not what we were going to set up?

LUKE SHANKIN: Yes. Originally, we had proposed that and you guys asked us to come back and get two 320s. But I think at the end of that last Board hearing we essentially ended up combining those 320s into a 640 with the rate of royalties would pay out because, again, we said that that 531020 would begin to pay that entire 640 acre unit once the well below it was drilled and turned online after it crossed from one unit to the other. That was our understanding after leaving that...the Board hearing when we got that approved.

MARY QUILLEN: And the way you worded this you've set it up as a 640 acre unit.

LUKE SHANKIN: Well-.

MARY QUILLEN: If my memory serves correctly, one of the concerns, other than the fact that we have no prior authorization for 640 acre units and the location of the wells were so close together, I think that was one of the concerns plus the fact that setting a precedent for a 640 acre unit. Is that correct?

LUKE SHANKIN: Yeah. Yes, I think maybe if I finish going through all of this you'll kind of see what I'm saying. If you have the same question and I don't clarify it, maybe I can get you clarified at the end.

BRUCE PRATHER: Mr. Chairman.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: I've got to recuse myself from this, but I'd sure like to ask a question or two.

LUKE SHANKIN: I mean, if it's a question of distance between one lateral and the other, I remember that was a question---

MARY QUILLEN: Right.

LUKE SHANKIN: ---that came up last time.

MARY QUILLEN: Yes, that is one of the questions. Uh-huh.

LUKE SHANKIN: In this case, the proposed laterals are, I don't have the numbers in front of me, but I think around 1400 feet apart. This is typical spacing that we use

in all other districts and aspects of this company. The other states are the Marcellus and the Lower Huron plays even in just to the north in Kentucky. This isn't out of the norm for what we're using, which is kind of why we're trying to establish a method to do this.

MARY QUILLEN: Is this in Virginia?

LUKE SHANKIN: This is in Virginia.

MARY QUILLEN: No, I mean, the others that you were just referring to.

LUKE SHANKIN: No, the other...the same formations, just different states where we, in fact, do this. So, we're kind of trying to model the success we've had in other states and apply that to Virginia.

BUTCH LAMBERT: Surely you didn't say this is what we're doing in Kentucky before this Board?

LUKE SHANKIN: I'm sorry. I apologize. It's modeled after other success that we've had in the company with the spacing of these wells and what we feel that we can.

BUTCH LAMBERT: Mr. Prather, if you have to recuse yourself, you cannot ask a question.

BRUCE PRATHER: Okay. The question that I have is this---

(Laughs.)

BUTCH LAMBERT: Mr. Prather---

BRUCE PRATHER: Oh, I can't.

BUTCH LAMBERT: ---you can't ask it.

SHARON PIGEON: You can't ask it.

BRUCE PRATHER: All right. I'll have her ask it.

(Laughs.)

JIM KAISER: What we actually did because you didn't want an established for whatever reason even though these units are provisional. Let's don't forget that. Since you for some reason didn't want to establish a 640, what we did was we came back and got a location exception. Then apparently, based upon the testimony on how the royalty was going to be paid, there was some concern or some issue and that---

DAVID ASBURY: It was a consistency issue.

JIM KAISER: Right. That (inaudible) meeting with Mr. Asbury and now after that meeting with Mr. Asbury, he has put it on the docket for us to come up with an idea of how we think we can fairly pay the royalty owners to protect everybody's correlative rights and that's what we're here to do. That's what we're here to finish.

BUTCH LAMBERT: Yeah. Mr. Shankin, why don't you go ahead and finish up your presentation and see if that---?

LUKE SHANKIN: I think maybe I can answer---

JIM KAISER: It will be a good idea.

LUKE SHANKIN: Okay. So, if you flip to the next page---

BUTCH LAMBERT: Let's go back to the page approved...titled approved in July---

LUKE SHANKIN: Yeah.

BUTCH LAMBERT: ---we need to mark that as exhibit. I don't see an---

LUKE SHANKIN: Oh, I'm sorry, that would be EE is what that will end up being. It looks like the labels are off the next two. So, if we could just call those FF and GG on the last pages in the packet.

BUTCH LAMBERT: So, what page are we going to start on?

LUKE SHANKIN: I think I've went through what we feel was approved in July based off testimony.

JIM KAISER: So, we're at FF.

LUKE SHANKIN: So, FF. So, some issues, again, this would be kind of a hypothetical question, but issues that we see that could come up with the way that we previously approved this. For one, the way that we combine the two 320s to make a 640 we'd have to think does that unit combination would that apply for future wells drilled in these units and other formations. Essentially, if we had a

well that wasn't entirely within the one of the two units in a different formation, would be held part of the combination of the two units to pay that entire 640 or would it just be limited to the 320 that it was in. Another issue we saw was if the situation arose where a horizontal leg crosses into a horizontal unit that has already been combined with a unit. Essentially, if we were already paying a 640 acre and we wanted to get an exception to cross from another unit that was below that would we then create a 960 acre unit. Do you just keep adding these 320 acre units together indefinitely? If you look at the example to the right here, again, this takes into a part the drilled well to the north, which I'm just calling well A, which is the 531020. We have well B to the south, which is what we're proposing the exception for 539991. If we got into a situation where we proposed well C and had that unit established and crossed over would we then start paying that entire unit the 960 regardless of how far apart these wells actually were from each other. You know, we're just kind of afraid you're going to get into a situation where you balloon out of control where you keep adding units to units to units to effectively develop this reservoir. Yes, this is how gob units are created for some CBM wells where a CBM unit is drilled into an open mine and you have another CBM well that's drilled into that same open

mine and you start adding all of those wells together. That works for that because you have one open mine as your reservoir that you're draining gas from. In this case, you're draining gas from a tight shale. I don't think you can that the reservoir for A is going to be the same as D. I mean, you have a distance of where you're not training from an open void. You're draining from a defined rock reservoir here. So, what we would propose, if you look at the next page---

JIM KAISER: GG.

LUKE SHANKIN: ---GG is that I kind of feel that last time the exception for this got applied to the horizontal units instead of the well itself. We would propose that the exception get applied to 539991 and that 531020, which again is completely within what I have labeled over here on the right unit 1 just continues to pay unit 1 since it's abiding by the rules that we set up for that provisional unit. When unit well B crosses from unit 1 to 2 and royalties get split between 1 and 2 in the hypothetical process that we have a unit 3 below it and we cross that well C here, the well C would just then pay the two units that cross units 2 and units 3 and then, again, hypothetically if drilled well D, which stays entirely in the southern unit that it only pays the unit to the south.

Essentially, what we're proposing is a well stays entirely within the rules that we've set up for the provisional unit it only pays that provisional unit. If we come from the Board or in front of the Board and get a location exception to cross from one unit to another that that well would then pay the units that it crosses the boundaries of. I guess it's kind of what we're proposing. This would allow us to effectively develop this reservoir and get idea spacing moving forward on these wells. We're still not leaving any leaseholders out in between the wells and everybody...when a well crosses from one unit to another such as 1 and 2, well A is still going to be a part of unit 1, everybody in unit 1 is still going to be getting paid half the royalties from well B, which that well is crossing into. This is going to make so that we don't have to keep adding units together as we move forward with our horizontal wells and it's also going to effectively allow us to get optimal spacing on our horizontals.

JIM KAISER: And would it be your testimony that that's the fairest way to pay the royalty in this particular situation?

LUKE SHANKIN: Yeah. Yes.

BUTCH LAMBERT: I don't think it was the intent of the Board when we approved this the last time to keeping

adding on and compounding the units.

BRUCE PRATHER: Yeah.

MARY QUILLEN: That's my concern is this going to continue. Obviously, if your scenarios indicates that and this is what happens if you just keep adding on and adding on and you're expanding these from the original 320 to the 640 to the 960.

LUKE SHANKIN: Well, essentially what I'm proposing is that we would leave it as the 320. Everything stays on the 320 here and the only time that changes is for a well that crosses from one unit to another then that well would pay the 640 but if it stays within there it still only pays the 320. We're not forming a new unit. We're just getting an exception for that well to pay two different units. So, make it well specific rather than unit specific on these.

DAVID ASBURY: May I ask a question, Mr. Chairman?

BUTCH LAMBERT: Mr. Asbury.

DAVID ASBURY: So, we have owners...acreage owners who are escrowed and there in unit 2 they will be paid for their acreage percentage...let's say they own 64 acres and if they're in B and they own 64 acres they would own 64 acres of 640 acres or 10% of production from this well in unit B, which would be 539991?

LUKE SHANKIN: Yes, sir.

DAVID ASBURY: Okay. So, they would still maintain their acreage percentage of production and royalty payment from that?

LUKE SHANKIN: Yes.

DAVID ASBURY: And if I'm also in unit 2 I would also be sharing my acreage percentage, which again would be 10% of units 2 and 3 of well C?

LUKE SHANKIN: Yes.

DAVID ASBURY: Yes.

BUTCH LAMBERT: Questions from the Board?

DAVID ASBURY: I think the Board can understand why we brought it back before the Board so that everyone---

LUKE SHANKIN: Yeah, I think there was some---

DAVID ASBURY: ---was on the same base here.

BUTCH LAMBERT: I've got to tell you, I'm not sure what the understanding was when we approved this the last time. Again, I don't think our intent was to keep compounding and expanding the unit.

MARY QUILLEN: My understanding was that it was a one time deal...isolated...a one time deal.

BUTCH LAMBERT: If there was a misunderstanding, I'd like to hear it from either---

JIM KAISER: Well, I think what happened was, and Mr. Asbury can correct me if I'm wrong, but the units were

established and they were approved, the location exception was approved and our testimony was that we were going to pay both units on a pro-rata share. In other words, unit B...or unit 2, if we're going with this example over here was going to get royalty out of unit 1. I'm assuming he didn't think that was (inaudible) after that first lateral. So, this is what we've come back to propose, which we think is a more equitable and fair solution. It's as simple as that.

MARY QUILLEN: That's my understanding but it was that one isolated case and not something that's going to be continued---.

JIM KAISER: Well, we're only talking about one isolated case right now.

LUKE SHANKIN: I guess, we didn't...we didn't want to set a precedent for that to be the way that it occurs that when you cross from one unit to another, you know, if this happen that the well that was already paying that 320 acre unit would then be required to pay that 640 just---.

JIM KAISER: Yeah. If we ever want to do this again, we'll have to come back before you again. We didn't put this back on the Board. Mr. Asbury did.

DAVID ASBURY: To make sure the Board was clear of how royalties would be paid.

LUKE SHANKIN: We just wanted to clarify what had

happened and---

JIM KAISER: We're not saying this is going to be an ongoing procedure. If it is, we'll have to come back to you every time and get a location exception and go through the royalty the way we want to pay royalty again. We're just saying this one particular case, based upon the way it ended, Mr. Asbury was not comfortable, which I can understand, and because of the fact that unit 2 was going to be receiving royalty out of the first lateral, which wasn't even in their unit. So, I think we had a meeting and he said come up with some way that you think is better. This is what we've come up with.

MARY QUILLEN: And all...all of these owners have agreed...in both of these units have agreed to this?

JIM KAISER: I think they're all under lease.

LUKE SHANKIN: They're all under lease.

JIM KAISER: Yeah.

BRUCE PRATHER: But have they agreed, you know---

JIM KAISER: Agreed to what?

LUKE SHANKIN: I mean, I guess what I would say, it's with a square unit with one lateral running through the middle of the unit. You're not going to effectively drain a square. To effectively drain this reservoir, I feel in the future you're going to need to cross from one unit to

another to capture that gas that is located essentially where we're not going to have a lateral. We just want to make sure that we're paying the people that need to be paid for their proportionate share of that. We want to leave it on the squares because that's what everybody is comfortable with but allow it to the point where we can develop the reservoir and effectively drain the resource.

MARY QUILLEN: Right. And I understand that. What concerns me is this addition of this extra unit down here.

LUKE SHANKIN: Now, we're---

JIM KAISER: He's just doing that for an example to sort of illustrate what it is we're doing.

LUKE SHANKIN: Yeah, that's just---

JIM KAISER: We're not asking for that. It's an example to illustrate his point.

BUTCH LAMBERT: And, Ms. Quillen, we're only talking about well 539991.

LUKE SHANKIN: Yeah, I'm sorry. Maybe that was confusing at the bottom. But I just put that to say, okay, hypothetically what if we did establish this unit and cross it then all of sudden do we have an even larger unit...I'm sorry, maybe I should have explained that a little better.

MARY QUILLEN: Right. And it opens a door.

LUKE SHANKIN: Yeah. And that's why we just want

the exception to be for the well and not to continue to add units to units to units. So, lets say we did come back and drill well C, we would come back and get a location exception on well C from the Board after we established the unit 3. Right now unit 3 isn't established. But if we did, we establish unit 3, propose well C and come back and get a location exception somewhere---

JIM KAISER: Yeah, for right now just look at 1 and 2 and A and B. That's the situation we have before us right now.

BUTCH LAMBERT: Right.

MARY QUILLEN: And the payment of royalties to the owners in only A and B and we're only considering A and B and the well that we're actually addressing is B, which is the one that we gave the exception for.

LUKE SHANKIN: Yeah.

JIM KAISER: Yes, ma'am, exactly.

MARY QUILLEN: So, we're not giving a blanket authorization or---?

LUKE SHANKIN: No. We would continue to come back---

MARY QUILLEN: -approval-?

LUKE SHANKIN: ---in front of the Board.

MARY QUILLEN: ---to do this continual and keep

expanding these, correct?

JIM KAISER: Correct.

LUKE SHANKIN: Yeah. If we did this again, we would come back in front of the Board with another proposal.

BUTCH LAMBERT: I tell you what I would like to propose to do since there is so much confusion here is to continue this one until next month so we can go back and pull up the transcripts and let the Board reread the transcripts.

LUKE SHANKIN: Yeah. I can say our biggest concern was that after well B, the well we're proposing 539991 was turned on line that the already drilled well 531020 would begin paying the entire 640 even though it's still within the provisional unit we set up for 1.

BUTCH LAMBERT: Yeah, I understand. I think there's some Board members that are under the understanding that this is how we had left this is what you're trying to explain. But apparently there's some confusion amongst other Board members. So, if we could just go back and pull up the transcripts of how we ended that one and then we'll continue this one until January.

JIM KAISER: That's fine.

BUTCH LAMBERT: Okay. Mr. Asbury, if you'll pull those transcripts and provide copies to the Board.

DAVID ASBURY: I will. Yes, sir.

BUTCH LAMBERT: Thank you.

DAVID ASBURY: It will be in the Board packet.

BUTCH LAMBERT: Let's take a just a real quick ten minute break.

(Break.)

BUTCH LAMBERT: Ladies and gentlemen, just so that you know, we're going to have to adjourn today at 4:00 o'clock. Some of us have to be on the road for Charlottesville and other areas. So, we'll try to hurry through as soon as we can. But just to let you know that. We're calling a petition from EQT Production Company for pooling of coalbed methane unit VC-536336, VGOB-09-1215-2646. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser and Rita Barrett on behalf of EQT Production. I'll remind the witness that she has been sworn.

BUTCH LAMBERT: You may proceed.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, do your responsibilities include the land involved here and in the surrounding area?

A. They do.

Q. Are you familiar with the application that we filed seeking a pooling order?

A. I am.

Q. Does Equitable own drilling rights in the unit involved here?

A. Yes, we do.

Q. Prior to the filing of the application, were efforts made to contact each of the respondents and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What's the interest under lease to Equitable within the gas estate in the unit?

A. 84.049524.

Q. And what is the interest to Equitable under lease in the coal estate?

A. 100%.

Q. Are all unleased parties set out at Exhibit B-3?

A. Yes.

Q. So, what remains unleased is 15.950476% of the gas estate, is that correct?

A. That's correct.

Q. Okay. And in this particular unit we do have some unknowns, correct?

A. That's correct.

Q. Were reasonable and diligent efforts made and sources checked to identify and locate these unknown heirs?

A. Yes.

Q. In your professional opinion, was due diligence exercised to locate each of the respondents named in Exhibit B?

A. Yes.

Q. Are you requesting this Board to force pool all unleased interest listed at Exhibit B-3?

A. Yes.

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

A. I am.

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

A. Twenty-five dollar bonus...I'm sorry, twenty-five dollar per acre bonus for a paid up five year term and a one-eighth royalty.

Q. And in your opinion, do the terms you've

just testified to represent the fair market value of and the fair and reasonable compensation to be paid for drilling rights within this unit?

A. Yes.

JIM KAISER: Now, Mr. Chairman, at this time, I'd like to incorporate the statutory election option testimony and the implications of such that was first taken in item 2644 earlier today.

BUTCH LAMBERT: Accepted.

Q. Ms. Barrett, in this particular case, does the Board need to establish an escrow account?

A. Yes, for Tracts 1, 4, 5 and 7 due to conflicting claimants and unknown parties.

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

A. EQT Production Company.

Q. And what's the total depth of this proposed well?

A. 2,529 feet.

Q. What are the estimated reserves over the life of the unit?

A. 270 million cubic feet.

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

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs?

A. Yes.

Q. Could you state both the dry hole costs and completed well costs for this well?

A. Yes. The dry hole costs are \$199,365 and completed well costs are \$404,223.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of this application be in the best interest of conservation, the prevention of waste and protection of correlative rights?

A. Yes.

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

BUTCH LAMBERT: 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.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: 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 Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: Thank you, Mr. Kaiser.

JIM KAISER: Thank you.

RITA BARRETT: Thank you.

BUTCH LAMBERT: The next item is a petition from EQT Production Company for pooling of coalbed methane unit VC-536244, docket number VGOB-09-1215-2648. All parties wishing to testify, please come forward.

JIM KAISER: Again, Mr. Chairman, Jim Kaiser and Rita Barrett.

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, do your responsibilities include the land involved here and in the surrounding area?

A. Yes.

Q. Are you familiar with the application that we filed seeking a pooling order?

A. Yes.

Q. Does Equitable own drilling rights in the unit involved here?

A. Yes.

Q. Prior to the filing of the application, were efforts made to contact each of the respondents and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What is the interest under lease to Equitable in the gas estate in this unit?

A. 93.74345633%.

Q. And the coal estate?

A. 100%.

Q. Are all unleased parties set out at B-3?

A. They are.

Q. So, what remains unleased?

A. 6.25654367%.

Q. We do have some unknown interest in this unit?

A. We do.

Q. In your opinion, were reasonable and diligent efforts made and sources checked to identify and locate these unknown heirs?

A. Yes.

Q. Are you requesting this Board to force pool all unleased interest listed at Exhibit B-3 to the application?

A. Yes.

Q. Again, are familiar with the fair market value of drilling rights in the unit here and in the surrounding area?

A. I am.

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

A. Twenty-five dollar per acre bonus for a five year paid up lease and a one-eighth royalty.

Q. In your opinion, do the terms that you've

just testified to represent the fair and reasonable compensation to be paid for drilling rights within this unit?

A. Yes.

JIM KAISER: Mr. Chairman, again, I'd ask that the statutory election option testimony and the implications of such first taken in item 2644 today be incorporated for purposes of this hearing.

BUTCH LAMBERT: It's accepted.

Q. Ms. Barrett, do we need to establish...does the Board need to establish an escrow account?

A. Yes, for Tracts 1, 7, 8 and 9 due to conflicting claimants and unknown---

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

A. EQT Production Company.

Q. The total depth of the proposed well?

A. 2,633 feet.

Q. The estimated reserves over the life of the unit?

A. 300 million cubic feet.

Q. Has an AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs?

A. Yes.

Q. Would you state the dry hole costs and completed well costs for this well?

A. Yes. The dry hole costs are \$172,771 and the completed well costs are \$388,942.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of this application be in the best interest of conservation, prevention of waste and protection of correlative rights?

A. Yes.

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

MARY QUILLEN: Mr. Chairman. Ms. Barrett, could you---

BUTCH LAMBERT: I think we all caught it at the same time.

MARY QUILLEN: Could you repeat the depth?

RITA BARRETT: Yes. It's 2,663 feet.

MARY QUILLEN: Thank you.

RITA BARRETT: You're welcome.

BUTCH LAMBERT: Any other 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, Mr. Chairman.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

BRUCE PRATHER: Second.

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

(All members signify by saying yes, but Butch Lambert.)

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: The next item is a petition from EQT Production Company for pooling of coalbed methane unit

VC-531317, docket number VGOB-09-1215-2649. All parties wishing to testify, please come forward.

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

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, do your responsibilities include the land involved here and in the surrounding area?

A. Yes.

Q. Are you familiar with the application that we filed seeking a pooling order for this unit?

A. Yes.

Q. Does EQT own drilling rights in the unit involved here?

A. We do.

Q. Prior to the filing of the application, were efforts made to contact each of the respondents and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What's the percentage of the gas estate

under lease to EQT?

A. 94.3549316%.

Q. And the percentage of the coal estate under lease?

A. 100%.

Q. Are all unleased parties set out at Exhibit B-3?

A. Yes.

Q. So, 5.6450684% of the gas estate remains unleased?

A. That's correct.

Q. We do have quite a few unknown and unlocatables in this unit?

A. That's correct.

Q. Were reasonable and diligent efforts made and sources checked to identify and locate these unknown heirs?

A. Yes.

Q. In your professional opinion, was due diligence exercised to locate each of the respondents named in Exhibit B?

A. Yes.

Q. Are you requesting this Board to force pool all unleased interest listed at Exhibit B-3?

A. Yes.

Q. Again, are you familiar with the fair market value of drilling rights in the unit here and in the surrounding area?

A. Yes.

Q. Please advise the Board as to what those are.

A. Twenty-five dollar per acre for a five year paid up lease.

Q. In your opinion, do the terms that you've just testified to represent the fair market value of and the fair and reasonable compensation to be paid for drilling rights within this unit?

A. Yes. And that includes a one-eighth royalty.

JIM KAISER: Mr. Chairman, again, I'd ask that the statutory election options afforded any unleased interest and the time frames in which to make those and the implications thereof be incorporated from the testimony taken previously in 2644.

BUTCH LAMBERT: Accepted.

Q. Ms. Barrett, does the Board need to establish an escrow account for this unit?

A. Yes. For Tracts 1 and 3 due to conflicting

claimants and unknown and unlocateable parties.

Q. Who should be named operator under any force pooling order?

A. EQT Production Company.

Q. The total depth of this proposed well?

A. 2,668 feet.

Q. The estimated reserves over the life of the unit?

A. 300 million cubic feet.

Q. Has AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs?

A. Yes.

Q. Could you state the dry hole costs and completed well costs for this well?

A. Yes. Dry hole costs are \$196,299 and completed well costs are \$424,970.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of this application be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes.

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

BUTCH LAMBERT: 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.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: 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 Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

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

JIM KAISER: Thank you.

BUTCH LAMBERT: The next item is a petition from EQT Production Company for the pooling of coalbed methane unit VC-537252, docket number VGOB-09-1215-2650. All parties wishing to testify, please come forward.

JIM KAISER: Jim Kaiser and Rita Barrett, again, on behalf of EQT Production Company.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, are you familiar with the application that we filed seeking a pooling order of this unit?

A. Yes.

Q. Does Equitable own drilling rights in the unit involved here?

A. We do.

Q. Prior to the filing of the application, were efforts made to contact each of the respondents and an attempt made to work out a voluntary lease agreement with each?

A. Yes.

Q. What percentage of the gas estate is under lease to Equitable?

A. 99.99%.

Q. And what percentage of the coal estate?

A. 100%.

Q. Are all unleased parties set out at B-3?

A. They are.

Q. So, 0.01% of the gas estate remains unleased?

A. That's correct.

Q. We don't have any unknown and unlocatables?

A. Correct.

Q. Are you requesting the Board to force pool all unleased interest as listed at Exhibit B-3?

A. Yes.

Q. Again, are you familiar with the fair market value of drilling rights in the unit here and in the surrounding area?

A. I am.

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

A. Twenty-five dollar per acre bonus for a five year paid up term and one-eighth royalty.

Q. In your opinion, do the terms that you've just testified to represent the fair market value of and the fair and reasonable compensation to be paid for drilling rights within this unit?

A. Yes.

JIM KAISER: Again, Mr. Chairman, I'd ask that the statutory election option testimony first taken in 2644 be incorporated for purposes of this hearing.

BUTCH LAMBERT: Accepted.

Q. Ms. Barrett, does the Board need to establish an escrow account for this unit?

A. Yes. A portion of Tract 4 needs to be escrowed.

Q. Okay. And who should be named operator under any force pooling order?

A. EQT Production Company.

Q. The total depth of this proposed well?

A. 1,958 feet.

Q. Estimated reserves over the life of the unit?

A. 2,075 million cubic feet.

Q. Has an AFE been reviewed, signed and submitted to the Board as Exhibit C?

A. Yes.

Q. In your opinion, does it represent a reasonable estimate of well costs?

A. Yes.

Q. What are those well costs?

A. The dry hole costs are \$126,904. Completed well costs are \$321,118.

Q. Do these costs anticipate a multiple completion?

A. Yes.

Q. Does your AFE include a reasonable charge for supervision?

A. Yes.

Q. In your professional opinion, would the granting of this application be in the best interest of conservation, the prevention of waste and protection of correlative rights?

A. Yes.

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

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

(No audible response.)

JIM KAISER: We'd ask that the application be

approved as submitted, sir.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: 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 Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

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

RITA BARRETT: Thank you.

JIM KAISER: Thank you.

BUTCH LAMBERT: The next item is a petition from EQT Production Company for the establishment of a provisional drilling unit consisting of 320 acres unit EQT 2652 for the drilling of horizontal conventional gas wells, docket number VGOB-09-1215-2652. All parties wishing to testify, please come forward.

JIM KAISER: Mr. Chairman, Jim Kaiser, Rita Barrett

and Luke Shankin for EQT Production Company. Both witnesses have been sworn. We'll start with Ms. Barrett.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, would it be your testimony that the one and only coal, oil and gas owner in this unit has been notified of this hearing?

A. Yes.

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

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

LUKE SHANKIN

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Shankin, if you'd state your name, who you're employed by and in what capacity?

A. Luke Shankin, EQT Production as a geologist.

Q. And does the establishment of this unit

fall under your job description?

A. Yes.

Q. And if we refer the Board back to item number three on the docket list, but it was probable item number twenty when we actually heard the items today, would your testimony as to the establishment of this horizontal unit pretty much be the same as that and did your handout that your prepare for that item also include this well on it?

A. Yes.

Q. Is there anything that you would like to add?

A. No. The testimony would be the same for this unit.

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

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: Anything further?

BRUCE PRATHER: I have a question. I have a question.

BUTCH LAMBERT: I'm sorry, Mr. Prather.

BRUCE PRATHER: Is this a Roaring Fork well?

RITA BARRETT: Yes, sir, it is.

JIM KAISER: There's just one...it's all Penn  
Virginia, the entire unit.

BRUCE PRATHER: Okay.

BUTCH LAMBERT: Anything further, Mr. Kaiser?

JIM KAISER: No, we'd ask that the application be  
approved as submitted, sir.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve.

KATIE DYE: 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 Butch  
Lambert and Bruce Prather.)

BUTCH LAMBERT: Opposed, no.

BRUCE PRATHER: Abstain.

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

JIM KAISER: Thank you.

RITA BARRETT: Thank you.

BUTCH LAMBERT: The next item is a petition from  
EQT Production Company for the establishment of a

provisional drilling unit consisting of 235.08 acres, unit EQT 2653 for the drilling of horizontal coalbed gas wells, docket number VGOB-09-1215-2653. All parties wishing to testify, please come forward.

JIM KAISER: Yes, sir. Jim Kaiser, Rita Barrett and Luke Shankin for EQT Production Company.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, we are seeking today in this hearing to establish a provisional drilling unit for a horizontal CBM well, is that correct?

A. Yes.

Q. And have all oil, gas and coal owners been notified as required by statute?

A. Yes.

Q. And we have all green cards returned?

A. Yes.

Q. Why did we have to revise the plat on this one?

A. The initial application for this well showed Tract 4, Richard Wilson and others as leased. After the application, we realized that that lease had actually

expired and we're working on renewing it. The new exhibit shows it as unreleased.

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

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may proceed, Mr. Kaiser.

LUKE SHANKIN

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Shankin, do your responsibilities include the area that we're establishing this unit in?

A. Yes.

Q. And have you prepared a package of information to help illustrate your testimony today?

A. Yes.

Q. Would you go through that with the Board right now, please?

A. Yes. The packet that's in front of you has information about this unit and the two that follow, which is why you'll see two different sizes as we go through here, but we'll focus on the unit that is in front of us for VGOB-2653. So, if we look at page AA, this proposal is for a 240

acre square unit with dimensions of 3233 X 3233 with a 4,572 foot diagonal. B, these are actually the dimensions that would be for the next two docket numbers. But these two are in the case of a 352 acre unit with dimensions of 3200 X 4800 feet and 5,770 foot diagonal. That's going to be for the next two just to clarify where that is. These will have a 300 foot interior with a 600 foot standoff from adjacent grid horizontal wellbores. These horizontal units get overlay the established 60 acre Nora CBM grids. Again, we should be able to drill the surface location outside of the unit so long as production comes from within the unit. This will allow for multiple wells and/or laterals for maximum drainage. In some cases, two or more wells may be able to use the same pad due to terrain restrictions. Figure BB, the 235 square acre unit, which in the actual diagram is labeled as a 240. That's a typo for the unit we're establishing. These should both be 235 acre units. I apologize. The dimensions are 3200 feet X 3200 feet with a 4525 foot diagonal for the unit that we're asking for today. CC on the next page---

Q. Skip that.

A. ---we'll skip that and go back to that in the next two docket items. DD just lists the benefits of horizontal drilling. There's fewer issues with coal mining

and less surface disturbance. We can more effectively extract the resource. The laterals can reach into areas otherwise inaccessible by vertical boreholes. We have higher depletion rates with shorter lives to the wells and this will encourage future development of the resource. EE, in this case let's just focus on the unit to the far east, which is VGOB-2653, which matches up with this docket number, and that is shown up close on the next page FF with the existing wells in that unit. Then we'll flip to the last pages when those docket items are called.

Q. And is this a provisional unit we're asking the Board to establish?

A. Yes, provisional unit.

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

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: I have a question on this one.

BUTCH LAMBERT: Mr. Prather.

BRUCE PRATHER: Is this another case where we're kind of combining units?

LUKE SHANKIN: No. And the docket number for this...we're just getting the 2---.

JIM KAISER: Well, no, we are---.

BRUCE PRATHER: You are.

JIM KAISER: ---because on the 235 unit we're combining four existing Nora units. So, we're staying on the same grid, which is what you want us to do. So, that's what we're doing.

BRUCE PRATHER: Well, the problem that I've got with these requests for variances on these things is the laws was set up that you were supposed to stay with your well confined within the unit that we have here. The big problem that I can see with the thing down the road and for the Board is maybe even you is in the event there's an outside leaseholder has stuff out there and has a producing well then...and you're coming down through here cutting these units in half you could have correlative rights problems like you wouldn't believe if somebody has...if somebody has a well out there.

JIM KAISER: Well, I believe...I believe the order is set up to deal with that, Mr. Prather. What we're doing is taking four...as we've been asked to do in the case of provisional coalbed methane horizontal units, we're taking the existing Nora units...the existing grid, the field rule that has already been set up and taking at least in this case four of those units and placing them together. Now, as far as any producing CBM vertical wells within that unit, we're required to keep the laterals 600 feet away from them

in order to avoid that problem. I don't know if those are all CBM wells or not---.

LUKE SHANKIN: Yeah.

JIM KAISER: ---but some of them could be conventional.

LUKE SHANKIN: Those all CBMs in that grid.

BRUCE PRATHER: Yeah, they look like it.

JIM KAISER: Hopefully, that answers your question.

BRUCE PRATHER: But there would be no royalty problems within this 3...in other words, the royalty is owned by the same person, the whole 325 acres.

JIM KAISER: Exactly. Well---.

LUKE SHANKIN: In this case, Mr. Prather, I kind of made it a little confusing by putting all three of these docket items on the same packet. But this is for the 240 acre unit. The other two larger units we will testify in the next two. But this is just for the 240 acre unit.

BRUCE PRATHER: Oh, okay.

BUTCH LAMBERT: And for the future, we'd ask that you not do that.

LUKE SHANKIN: I will split this up, Mr. Chairman.

BUTCH LAMBERT: Don't combine them.

LUKE SHANKIN: I apologize.

BUTCH LAMBERT: You're making us...you're confusing

us.

(Laughs.)

JIM KAISER: He confuses me too.

BRUCE PRATHER: Me too.

(Laughs.)

DAVID ASBURY: I'm with you.

LUKE SHANKIN: Okay.

BUTCH LAMBERT: He's smarter than we are. He's an  
engineer.

DAVID ASBURY: I just have to be different.

LUKE SHANKIN: Thank you.

JIM KAISER: No, but again the order would, you  
know, make us in the application state that we will...the  
lateral will stay at least 600 feet from any prod...from the  
same zones producing from any of the CBM vertical wells in  
order to protect correlative rights. Of course, the same  
people that are getting royalties off of vertical wells are  
going to be getting the royalties off of this horizontal  
well.

BRUCE PRATHER: Yeah. Yeah, the only problem I can  
see with the variance on these things would be in the  
event---.

JIM KAISER: Well, now, that's before variances.

BRUCE PRATHER: I know you're not. But what I'm

saying is that when you start getting close to the edge of your property then you might run into some problems.

JIM KAISER: And I think that's why we set up the setback.

BRUCE PRATHER: Yeah.

BUTCH LAMBERT: Any other questions from the Board?

(No audible response.)

BUTCH LAMBERT: In your application, you listed the acreages in a couple of different places as 235.08 and 235.41.

JIM KAISER: No.

RITA BARRETT: It's supposed to be 235.08.

BUTCH LAMBERT: And then on your Exhibit BB you list 240.

JIM KAISER: He did correct that.

RITA BARRETT: That was a typo.

LUKE SHANKIN: Yeah, on that. I'm sorry. That was a typo that went with a previous. It should be the 235.

RITA BARRETT: We can provide you with the revised exhibits.

BUTCH LAMBERT: Yeah. Instead of doing that, in light of the many different discrepancies I'd like to continue this one and we'll come back with new docket... new---.

JIM KAISER: Whoa, the application is absolutely right. The only thing that is wrong is his little 240 instead of 235 on the exhibit.

BUTCH LAMBERT: Well, no...no, it's not. There's two different.

JIM KAISER: Everywhere I see it says 235.08.

BUTCH LAMBERT: 235.41.

JIM KAISER: Where?

BUTCH LAMBERT: On your signature page on the application.

SHARON PIGEON: Right where you signed it, young man.

BUTCH LAMBERT: So, we're changing...we're switching that everything that we have in front of us has to be correct.

JIM KAISER: All right. What about...can we just submit a corrected page?

BUTCH LAMBERT: Well, we have three different mistakes to the whole application. So, I think we need to get---

JIM KAISER: Wait a minute. Where are the other two on the application?

BUTCH LAMBERT: Well, here's one.

JIM KAISER: That's not on the application. That's

an exhibit.

BUTCH LAMBERT: On the exhibit.

JIM KAISER: He corrected that in his testimony.

BUTCH LAMBERT: That's part of the application. Then we have...well, you're right. We have two. You're correct. One above your signature.

JIM KAISER: Right. And rather than continuing it and hearing it again, can we just not correct the typo and submit that to you like we do with exhibits and stuff all the time?

BUTCH LAMBERT: We're starting to see a lot of this. We've got to get to a point where we get things in front of us corrected when they come before us. I will allow you to correct this one.

JIM KAISER: I appreciate that.

BUTCH LAMBERT: From this point forward---

JIM KAISER: It's my one chance.

BUTCH LAMBERT: 2010 we're going to---

JIM KAISER: All right. I understand.

RITA BARRETT: Thank you.

SHARON PIGEON: And if it's on the signature page, we will continue it for 60 days.

(Mary Quillen confers with Butch Lambert.)

BUTCH LAMBERT: Thank you, Ms. Quillen. She

pointed out the third one. It was on your exhibit.

JIM KAISER: Okay.

BUTCH LAMBERT: On BB, it says A-235. I know that's .08. But that...so, please submit us a new exhibit.

JIM KAISER: I will submit you a new signature page with 235.08 instead of 235.41.

BUTCH LAMBERT: Okay. Thank you.

JIM KAISER: And Luke will submit you new---.

LUKE SHANKIN: Exhibits.

JIM KAISER: ---exhibits with the correct acreage in the unit on there.

BUTCH LAMBERT: Okay.

RITA BARRETT: Thank you.

BUTCH LAMBERT: Okay.

JIM KAISER: And we will do our best to make sure this doesn't happen again.

SHARON PIGEON: Have you had a motion yet?

BUTCH LAMBERT: I have not, no. We haven't a motion yet.

JIM KAISER: Right.

BUTCH LAMBERT: It might not get approved anyway.

JIM KAISER: Right. Presuming...yeah, assuming it gets approved.

SHARON PIGEON: Keep it up. You're right on a roll

here.

(Laughs.)

BUTCH LAMBERT: Do you have anything further, Mr. Kaiser?

JIM KAISER: No, sir.

BUTCH LAMBERT: Do I have a motion?

MARY QUILLEN: Motion to approve pending receipt of the corrected exhibits.

BUTCH LAMBERT: Do I have a second?

BRUCE PRATHER: I'll second it, I guess.

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

(All members signify by saying yes, but Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

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

JIM KAISER: Thank you.

BUTCH LAMBERT: ---with the...okay, the next item is a petition from EQT Production Company for the establishment of a provisional drilling unit consisting of 352.62 acres unit EQT 2654 for the drilling of horizontal coalbed gas well, docket number VGOB-09-1215-2654. All

parties wishing to testify, please come forward.

JIM KAISER: I'm going to make sure I've got my numbers right before I even start. I got the signature page wrong again. It's the same thing. It should say 356.2 and it says 235.41. But it's the only place that says that. So, you decide.

MARY QUILLEN: And here 235.41.

JIM KAISER: Right. On the signature page again, she has got the wrong---

SHARON PIGEON: She's got the wrong. Whose signature is on there.

JIM KAISER: I've got the wrong...it's all my fault. Every bit of it is my fault. I'll take all the blame. Put the load on me.

MARY QUILLEN: And on CC also.

JIM KAISER: Huh?

MARY QUILLEN: On Exhibit CC as well.

JIM KAISER: CC.

LUKE SHANKIN: Well, from the handout. It just says 352...using the same handouts for both things.

JIM KAISER: Right.

LUKE SHANKIN: I think that was a matter of using the same handout for both docket numbers, which will be corrected in the future.

BUTCH LAMBERT: Which we're not going to do anymore, are we?

JIM KAISER: No, we're not going to do that anymore either.

BUTCH LAMBERT: Okay. Mr. Kaiser, you may proceed.

JIM KAISER: I can? Are you sure?

BUTCH LAMBERT: Yeah.

SHARON PIGEON: This is marked revised too. So, this is his second chance here in our hand, right?

BUTCH LAMBERT: Yeah. That's it.

JIM KAISER: Well, I'm going to get a third one too, I think. Then I'll be out. In 2010, that's it.

SHARON PIGEON: In 2010, you're on your own then.

JIM KAISER: I'll be on my best behavior.

RITA BARRETT

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Ms. Barrett, do your responsibilities include the land involved in this unit that we're attempting to establish as a provisional unit?

A. Yes.

Q. And the...all parties have been notified, that being Range Resources-Pine Mountain and ACIN, LLC?

A. That's correct.

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

BUTCH LAMBERT: Questions from the Board?

(No audible response.)

BUTCH LAMBERT: You may continue, Mr. Kaiser.

LUKE SHANKIN

DIRECT EXAMINATION

QUESTIONS BY MR. KAISER:

Q. Mr. Shankin, obviously, your duties include the area in which we're attempting to establish this unit?

A. Yes.

Q. And you've...something that you've done, but you're never going to do again, you did include these two units in your packet that you prepared for the first unit that we just heard testimony on the 235.08 acre unit. Now, we are here asking for the establishment of a provisional unit in the form of 352.62 acres. Is that actually instead of four Nora units combined, would that be six Nora units combined?

A. Yes.

Q. And why are we asking for a provisional unit of a different size here than we just did ask for?

A. As we start the CBM horizontal program, I think it's important to address the different sizes and patterns of these multi-lateral CBM wells that we're going to put in here. The longer the legs the more coal that we're going to interact with our horizontal wellbore. In theory, it's the more gas that has been seen before. I guess, we just want to give ourselves some options at the start of this program with the size of not only motherbore lateral but the multi-lateral legs that will go up into that. The 235 acre unit constrains the size that we're going to be able to drill these and we'd like to at least give ourselves some options at the beginning our program to expand the sizes of these if necessary.

JIM KAISER: And in this particular unit...well, let me go back to Ms. Barrett.

RITA BARRETT

DIRECT EXAMINATION RESUMES

QUESTIONS BY MR. KAISER:

Q. In this particular unit, do we have just one royalty owner?

A. Yes. It's a 100% leased and it's Range Resources.

JIM KAISER: Okay. Thank you.

LUKE SHANKIN

DIRECT EXAMINATION RESUMES

QUESTIONS BY MR. KAISER:

Q. So, basically what you're saying is, we haven't really tried these horizontal CBM wells yet and based upon what you've seen maybe in some of your conventional horizontals, you feel like since we are on a provisional bases that we need to try a section of four units put together and also maybe try a section of...we're asking permission to try a section of six units put together and see what works best in order to establish maybe a uniform size for this particular type of horizontal well?

A. Yeah. I mean, at the start here before we got through and establish a bunch of units to test different fields, we not only test different areas in the field, but test different sizes at the same time before we come in and establish kind of a precedent...a standard--.

Q. A standard unit.

A. ---unit size, yes.

JIM KAISER: Thank you.

BUTCH LAMBERT: Questions from the Board?

BRUCE PRATHER: I'd feel a lot better about this if I knew that you were taking in two...that we had the units on this thing. In other words, 352 square acres, your acre

units that you've got here that's a rectangle. Does that leave on one end of this thing a half a unit?

LUKE SHANKIN: In this case and the unit following this, this overlays the 60 acre CBM grid right on top of that.

JIM KAISER: In other words, instead of just four of them, it's...instead of two stacked on two, it's three stacked on three.

BRUCE PRATHER: Well, 60 doesn't go...60 doesn't go into 352.

JIM KAISER: Well, it's not 60. It's 58 point whatever Nora is.

RITA BARRETT: 77.

JIM KAISER: Yeah.

BRUCE PRATHER: But I don't know. I mean, I would feel much better instead of having a big rectangle here to put these things on here so you could see what you're really looking at. I mean, the way it is now, I've got to ask question...are these units overlapping something either east or west of another unit that's a half unit or a quarter of a unit.

JIM KAISER: The answer would be no.

BRUCE PRATHER: Well, I know that. But that would help.

MARY QUILLEN: So, it's...three units are combined, correct?

RITA BARRETT: The grids are actually depicted on here. If you look, you'll see a square up into the northwest that's identified as grid BC-48. Then you'll see a square in the middle that's BC-49. Do you have those? Here's a bigger one.

(Board members confer among themselves.)

BUTCH LAMBERT: In establishing...in your asking us to establish these units in this acre, you're thinking right now, immediately. Have you given it any thought to a year or two years down the road when you're establishing these units what kind of units that you're going to come back and ask us for?

LUKE SHANKIN: I mean, I think at the start of the program until we actually test some of these wells and patterns I don't think we can say for sure what kind of units we're going to be most efficient for this.

JIM KAISER: Actually, you just stated our case for while we're doing it.

BUTCH LAMBERT: You see what...but the question goes a little further. But establishing these odd units, do you understand what position you're going to be in down the road when you come back and you've only got one unit and the

rest of them you've already got units all around that are 352 acres and then what happens? Given geological conditions and we see you drill...you drill your locations on geologic and surface conditions. And if we established this unit at 352 acres and we do a couple of three of these at your request for testing purposes, then what's going to happen to that unit that's set out here by itself that's in between these?

LUKE SHANKIN: You're saying once...if we tried to match these things up to each and we had one here and one here as we came together?

BUTCH LAMBERT: At some point...at some point we're going to have to pull them all together. So, what's going to happen when you're doing these units...these odd ball units out here.

LUKE SHANKIN: I mean, I guess...I guess my answer would be, you know, the 352 is odd only because we asked for the 240 first. I mean, in the end the 240 acre could be odd if we end up finding out that this is the best unit.

BUTCH LAMBERT: Exactly. That's the point I'm getting at.

JIM KAISER: But the beauty of the Nora Field Rule is that it is already established and it's on a grid pattern so you could square them all up.

BUTCH LAMBERT: Yeah. We could sit here and do that for our purposes in looking at it, but can he do it for the drilling purposes. What's going to happen to that one little unit that is set out here by itself that may not fit into this 352 or the 240?

RITA BARRETT: I think that we would have to match them up. I mean, your concern is obviously stranded acreage that doesn't have anybody...any units on it.

BUTCH LAMBERT: Especially with these coalbeds.

RITA BARRETT: Yes. And I think that we would have to be uniform in all of these. We cannot leave a unit in between everything else.

BUTCH LAMBERT: That's the point I'm getting at.

RITA BARRETT: Yes, I understand that.

BUTCH LAMBERT: Exactly.

JIM KAISER: Well, yeah, there may have to be...if this is successful and it goes well and they decide they want to develop the entire Nora Field with horizontal wells, then it's...just like the...where in the establishment of the vertical CBM different field rules you had Oakwood bumping into Nora and you had Middle Range bumping into Oakwood, they'll probably have to be some...once we decide what the optimum size of unit is based upon these...based upon drilling these different laterals, they'll have

to...they'll probably have to be some makeup units. That's just part of it.

BUTCH LAMBERT: You're going to run into situations where Range Resources may not be the mineral holder.

RITA BARRETT: Correct.

BUTCH LAMBERT: And you're going to have those units that you're not going to be able to drill in potentially...potentially.

LUKE SHANKIN: I guess my thought, Mr. Chairman, is...I mean, they're provisional units. And until we can...you know, we're putting these in the places that we feel we have the most success to drill a good well. Until we can get successful units in the places geologically and terrain-wise that we feel we can, I mean I hate to constrain ourselves...I mean, I know you always have to do things down the line, but until we can get successful in our best places, I mean, I hate to just try to shape stuff around so that we're given ourselves the best chance to start off.

BUTCH LAMBERT: Well, that's the concern I'm having here in looking at these. You just said it yourself. "We're looking for our best places."

LUKE SHANKIN: To put the provisional units and start the program.

BRUCE PRATHER: Have you ever drilled a 5700 foot

lateral?

LUKE SHANKIN: In the coal all the way across, no. It's not saying that we would need to drill a 5700 foot lateral across. That's just the dimensions of the unit. We're just saying---

BRUCE PRATHER: That's not what you got on your illustration here.

JIM KAISER: Well, there will still be a setback in there.

LUKE SHANKIN: There will still be a setback from the unit. I'm just putting the dimensions of the unit on here, Mr. Prather. I guess our thought is when you give a unit that size that allows us without having to come back and get an exception to cross on the edge of a 240 acre unit to build a larger size unit whether we're going to be able to drill a leg out that long or not, I don't know. I mean, it has been done. It's not...it's not too long to go in a coal well, but we just don't have the experience and knowledge to do that yet until we get out there and start testing some of these different sizes.

MARY QUILLEN: What is the size of...Mr. Chairman.

BUTCH LAMBERT: Ms. Quillen.

MARY QUILLEN: I know there really has not been very much exploration in Virginia with the horizontal CBMS.

But the exploration that has been done, what has been the size of the unit?

LUKE SHANKIN: I mean, I'm not sure what other operators have gotten approved. You have four...four grids combined is what we've used. But, again, we've...we haven't done a lot of these to say to that that's where we need to be on this. I mean, in the early...the early ones that I've gotten established have been the 240 or 235 or whichever, the four 60 acre grids together.

JIM KAISER: There has just been one, I think.

LUKE SHANKIN: Yeah, just one that has been really successfully good.

JIM KAISER: I don't know what...I think CNX may be the only other one that has done it. There, again, it's maybe different because they're in a different field with different rules.

MARY QUILLEN: Right. Yeah.

JIM KAISER: I don't know what they're done.

DAVID ASBURY: Mr. Chairman, one comment.

BUTCH LAMBERT: Mr. Asbury.

DAVID ASBURY: You folks have the benefit of knowing what your plans are going out. You're sitting here with your comfort level of knowing where you're going in an area. The Board is sitting here seeing individual pieces

come along. Maybe a better...for the Board's understanding and for everybody's understanding is to look at an area maybe during a quarter and say this is our plan of development of this area. It doesn't have to be the whole field, but it could be the area so that the Board has a better feeling that, okay, here is our development plan and we're really not piecemealing this. Over these next few months, here is our area that we anticipate doing provisional units to get a good handle on that. That's a benefit you folks have from the development planning side that the Board doesn't know. You comfortable with it, but the Board is only seeing pieces of it at a time. Maybe would it be better for their comfort level to be able to bring a more or less a regional plan over a few month period to let them see what your plans are and then understand why you're asking for these individual ones.

JIM KAISER: Good point.

LUKE SHANKIN: I mean, something like that is maybe possible. But until we can get some of these in ground...or in the ground successfully, I mean the development plan is kind of contingent on the results of the early wells. I mean, this stuff is fluid, you know.

DAVID ASBURY: Yeah, everyone understands that.

MARY QUILLEN: And what we're looking at is based

on our prior experiences with other wells that were drilled, particularly those circular wells and there was that drained acreage. Now, folks are coming back trying to find a good space to where they can pick up that stranded acreage and certainly pay these folks for their gas that's...that they're...that will have no way of getting out if we don't do that. Because of those past experiences, we are...that concerns us about is this going to be, you know, a repeated problem that there's going to be stranded acreage. And the---

JIM KAISER: Well, again, you don't want to confuse undeveloped horizontal acreage with stranded acreage. There's no stranded acreage because it's a field rule. You can't...everybody is in a square. There's nobody that's going to be left out of the unit. Now, the unit may not get developed, but that's a business decision. That's not a regulatory decision.

BRUCE PRATHER: I tell you the one thing that I see and what you're doing here is you're trying to make your drilling patten fit the state units.

JIM KAISER: We were asked to do that.

RITA BARRETT: Yeah, we were.

BRUCE PRATHER: And maybe your drilling pattern is in violation of the State units and that's what...that's

what your problem is. It's like this thing, you've got...if you're going to do your horizontal right through here and you've got all of these other horizontal wells, there's five of them that are in that unit, I assume that's it. Aren't there five---?

LUKE SHANKIN: Well, I mean, these will be...assuming once we get these in there will be multi-lateral patterns and those existing vertical wells in that grid, yes.

BRUCE PRATHER: Yeah, but those wells have been treated in that same thing. Here we've got all of got all of these wells. You're going to run a horizontal well. I assume it's going to be in one coal seam. Maybe these wells have not been produced out of that. I don't know. But, you know, you're going to run a big lateral all up through there, which I don't' know. I would question the economics of it unless you've got a powerhouse seam that you're into.

LUKE SHANKIN: I mean---.

BRUCE PRATHER: But that's not my...that's not my place. I don't have any money in it...in this one.

BUTCH LAMBERT: I see...just from my prospective, I see this as a potential for not developing units just because of location exceptions that we see and because of if we establish this in this particular order then you may or

may not come back and adjoin these units. That's a concern.

LUKE SHANKIN: I guess, I think you're going to find that with the coalbed wells especially, I mean, not all...like Mr. Kaiser said, not all units are going to warrant the development horizontally from a coal well. I mean, I understand your concerns that if they do everything matches up together. I just worry---

BUTCH LAMBERT: Well, certainly if these produces good as what you hope to do, you would think that they would---

LUKE SHANKIN: In some cases, I think we'll be thickness constrained a little bit.

BUTCH LAMBERT: I understand. But just the oddness shape of this proposed unit and the way it's going to play out in the overall field of where these things go and maybe missing some units that won't get adjoined in these, that's the concern that I have.

LUKE SHANKIN: I mean, we could establish a 240 acre unit and establish another one next to it and getting a location exception to cross it as we talked about before to get our maximum length out of these laterals that we feel like we're going to get. I mean, I guess that's another option from our standpoint. But for the provisional units early on, like I said, there's only been one really put in

the ground in the Nora to try to figure this out. I didn't know if it warranted going through that.

JIM KAISER: Or we could just try to establish them all as 352 instead of 235.

BRUCE PRATHER: Yeah. You know, you could establish some sort of a spacing pattern on this thing with units that would take in the units that are currently in affect. When you start making these rectangular shapes and things, that bothers me a little bit because I think what you're doing here, you're changing the drilling patterns. In other words, if you have a rectangular one, you'll start drilling these wells closer together and drill more wells on the rectangular basis than you will on a square. Think about that.

JIM KAISER: Well, the...Mr. Asbury's predecessor at the DGO was the one that suggested the rectangular scheme. It wasn't the operators that came up with that. I'm not sure it shouldn't be ellipticals or something like that.

BRUCE PRATHER: Yeah. Well, if we're set up on a square basis and it's done equally then it goes from one end of the square to the other whereas you're sitting these things up on rectangulars you're going to have them closer together, let's put it that way. I mean, I don't know

whether that's the good spacing or not. They've never drilled on that long. They don't know what they're going to drain.

LUKE SHANKIN: I think one thing to keep in mind, Mr. Prather, is the plan for these horizontal coalbeds is a multi-lateral well...you know, one motherbore with a bunch of legs branching off of it and then not treating that well. That's the initial plan now. Maybe that will have to change in the future based off early results. But whether we have, you know, the initial plan of 235 acre or 352 acre the plan is still for one well in that seam. It's just how far out we can branch those legs. The theory is the further we can branch other the more gas that we're going to be able to get. That's why we want to be able to have the option to test that.

BRUCE PRATHER: But if it is successful then you'll go either north or south of it and ask for more of these 350 acre rectangular. I mean, that's the basis for this.

LUKE SHANKIN: If that's the appropriate unit size. I mean, the other choice is we establish the wrong appropriate unit size as the standard unit and then we have a bunch of units out there that are constraining the effective development of the field. I mean, we don't...we don't know yet. That's why we're trying to do, you know,

the provisional units.

JIM KAISER: That's why they want to try to different sizes.

BRUCE PRATHER: It just seems to play havoc to the state spacing.

SHARON PIGEON: Well, you're asking that same size on this next docket item too.

LUKE SHANKIN: Yes. It's the same size on the next one to have some options. There is no state regulated spacing for horizontal CBM wells. The horizontal CBM wells are all provisional units laid on top of the CBM grid. There hasn't been a state established spacing for these. So, we're not breaking any spacing. I understand Mr. Chairman's concerns as far as units matching up. We're just establishing provisional units.

JIM KAISER: We're just trying to find an optimum size to make this work.

BUTCH LAMBERT: Any further discussion?

(No audible response.)

BUTCH LAMBERT: Anything further, Mr. Kaiser?

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

BUTCH LAMBERT: Do I have a motion?

(No audible response.)

BUTCH LAMBERT: Hearing no motion, not approved.  
Hearing no motion.

JIM KAISER: If I might at this time then I'd like to poll the Board and ask why they approved previously and then earlier today 235.08 acre units but not the 352.62 acre unit just so we'll know so can figure out how to move forward?

BUTCH LAMBERT: Yeah. I don't think that's appropriate, Mr. Kaiser. I think we had the discussion. You heard our discussion and what our concerns were. I might add for what...just for---

JIM KAISER: I was looking for education and not---

BUTCH LAMBERT: Just for your...for your health. I think Mr. Asbury had a very good approach. Maybe that's where we need to move forward to get the Board more comfortable. If you could do that for us and give us---

JIM KAISER: Just cut out a bigger angle and say this is what...a bigger area and say this is what we want to do in this particular area. This is what we anticipate.

BUTCH LAMBERT: From what I took away from the discussion is future plans and not just this one, but future plans. So, if you could present us something, as Mr. Asbury recommended, that would get us comfortable and we're going

to match these up and we're all going to stay within these rules, then I think we'd be much more comfortable. Now, that's my prospective on the discussions. If any of the Board members would like to add anything further, they're welcome to do that.

JIM KAISER: That being said, we're going to withdraw number thirty-two then.

BUTCH LAMBERT: Docket item VGOB-09-1215-2655 is being withdrawn. Ladies and gentlemen, we're going to have to conclude our hearings for today. Some of us have other appointments that we're going to have to get to real quickly. I appreciate your participation. Board members, I have one other item on the agenda and that's approval of the minutes for last month. Before we do that, let me personally say thank you to Ms. Quillen for sitting in as Chairman for me last month. Do I have any discussion on the minutes?

(No audible response.)

BUTCH LAMBERT: Do I have a motion to approve?

MARY QUILLEN AND BUTCH LAMBERT: Motion to approve.

BUTCH LAMBERT: Do I have a second.

MARY QUILLEN: Second.

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

(All members signify by saying yes, but Butch Lambert.)

BUTCH LAMBERT: Opposed, no.

(No audible response.)

BUTCH LAMBERT: The motion carries. Thank you, ladies and gentlemen.

BRUCE PRATHER: Thank you.

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 under my supervision.

Given under my hand and seal on this the 2nd day of January, 2010.

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NOTARY PUBLIC

My commission expires: August 31, 2013.