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ITEM I

MR. CHAIRMAN: The next item on today's agenda and the first agenda item is that the Virginia Gas and Oil Board on its own motion will receive testimony and evidence in regard to its intent to establish field rules for the Beatrice Mine sealed gob area based upon the existing 80 acre grid. The Board will further consider the establishment of allowable production from each well within the sealed gob area in order to allow the development of the sealed gob area on a unit by unit basis. This is docket number VGOB-96/06/18-0545. We'd ask the parties that wish to address the Board in this matter to come forward at this time. Now, in doing that I'd just ask us to be as orderly as we can -- one at a time, I suppose, to come forward and the Board will receive testimony. It's whoever wants to go first.

MR. SWARTZ: My name is Mark Swartz. I'm here on behalf of Buchanan Production Company and Consol, Inc. who is Buchanan's operator. Les Arrington and Claude Morgan are with me and we have in response to the notices the last couple of months sat down and come up with a proposal that we would like to share with you with regard to a frame work that we feel might work in the Beatrice Mine. If I could ask Les to go first and sort of describe --

1 he's done some mapping and calculations with regard to  
2 acreage and has kind of outlined the geography of the  
3 proposal.

4 MR. CHAIRMAN: Okay.

5 MR. SWARTZ: And then Claude has looked at the reservoir or  
6 the container that we have, has some recoverage reserve  
7 estimates for you all and some proposals in that regard.  
8 Lastly, with regard to our presentation, I've looked at  
9 the regs and the Code to some extent and would like to  
10 share some concerns that I have with regard to issues  
11 that I think a field rule for a sealed gob under these  
12 circumstances should really take into account -- some  
13 additional things for you to consider. So if Les could  
14 start that would be great.

15 MR. CHAIRMAN: That would be fine. If you're talking from  
16 that map, if you will, take a mike up with you or  
17 something so we can maintain the recording.

18 MR. ARRINGTON: What I've done here is I put a border around  
19 the Beatrice Mine Works similar to the way we've done our  
20 past sealed gob units and I've kind of followed the rules  
21 that you all -- the Board had set forth for us and used  
22 some of the guidelines that we have used to establish our  
23 sealed gob units. What I've done -- the red border  
24 that's around it I set out -- starting on the eastern  
25 side of it I just started following since on the north

1 there was no existing mine works. I followed the  
2 existing 80 acre units around the mine on the north side  
3 When I come over to the existing VP-1 Mine then I just  
4 followed just like we would have done between any of our  
5 sealed gob units. I followed the line immediately  
6 between it -- between the Beatrice Mine and the VP-1  
7 Mine. As I come further south I stayed the say way as I  
8 got to the VP-8 Mine and some of our proposed sealed gob  
9 units in our VP-8 Mine, the existing VP-8 Mine, and then  
10 again back in the winter, in January sometime, we  
11 established the VP-8 Sealed Gob Unit 1 which is down here  
12 on the south. I'm continually just following the border  
13 in between the mining. As I got over to the Buchanan  
14 Mine again I'm following our existing sealed gob units of  
15 our existing active gob units until I got all the way  
16 back to just north of the Buchanan #1 Mine. We've got an  
17 active longwall unit here.

18 MR. CHAIRMAN: Excuse me. If you don't care, would you work  
19 from the other side so people can see.

20 MR. ARRINGTON: Okay. This is an existing longwall panel unit  
21 we have at the Buchanan operation. And then I picked  
22 that back up on the 80 acre units getting over to the  
23 VP-2 Mine and then following the boundary in between  
24 them. This consists of about 6,180 acres which is  
25 somewhere in the neighborhood 77 80 acre units with

1 approximately twelve existing VVHs in it that's not  
2 plugged. As far as the boundary goes and the number of  
3 units I think that's all I have on that.

4 MR. CHAIRMAN: Are those twelve VVHs identified on here?

5 MR. ARRINGTON: Yes, they are.

6 MR. LEWIS: Do you plan on drilling any more?

7 MR. ARRINGTON: Yes, sir, we do.

8 MR. LEWIS: How many?

9 MR. ARRINGTON: I'll leave that up to Claude Morgan. He's  
10 going to discuss wells and numbers.

11 MR. McCLANNAHAN: Will the limits of that Beatrice sealed unit  
12 fall within K-16 through 28 to V-16 through 28?

13 MR. ARRINGTON: K-16 and V-16 did you say?

14 MR. McCLANNAHAN: Yes.

15 MR. ARRINGTON: Part of it will, yes.

16 MR. CHAIRMAN: Would you identify yourself for the record,  
17 please?

18 MR. McCLANNAHAN: Mark McClannahan.

19 MR. CHAIRMAN: Thank you.

20 MR. HARRIS: I have a question, Mr. Chairman. When these  
21 sections that are -- were the red is the seals are in  
22 place now. This is my understanding.

23 MR. ARRINGTON: This mine is sealed.

24 MR. HARRIS: Well, I think we've talked about this before.  
25 When you say this mine is sealed are we --

1 MR. SWARTZ: This is a shaft mine. So there would not be  
2 seals in place. In the area of the red outline the  
3 shafts would be sealed.

4 MR. HARRIS: Okay. Okay.

5 MR. ARRINGTON: And this existing boundary that I've got  
6 around here, again, we just used what we've learnt from  
7 the past with the Board and following in between our  
8 existing mines. So this boundary that we have, especial-  
9 ly on the north and in this area, that's subject to  
10 change. It's --

11 MR. HARRIS: That's actually part of my question. Let me go  
12 ahead and ask the question anyway. Down at the south,  
13 VP-8 Sealed Gob Unit 1 and the one to the west, proposed  
14 VP-8 Sealed Gob Unit 2, is there going to be any commun-  
15 ication between that and the one that's outlined once  
16 they are sealed?

17 MR. ARRINGTON: No, sir.

18 MR. McCLANNAHAN: So the western limit will not go beyond 15  
19 and 16 or past 16, west of it?

20 MR. ARRINGTON: You're talking about in this area?

21 MR. McCLANNAHAN: Yes.

22 MR. ARRINGTON: At this point no. No. We're not planning on  
23 this area in this --

24 MR. CHAIRMAN: Any other questions, members of the Board, for  
25 this witness? Thank you, Les.

1 MR. MORGAN: My name is Claude Morgan, manager of gas projects  
2 for Consol Coal Group. The proposal that the Board is  
3 considering today in our proposal in the formation of  
4 field rules for this we are proposing that this would  
5 cover all seams below the Tiller down through and  
6 including the Pocahontas #1 in the area as Mr. Arrington  
7 has just outlined on the map. We would propose to use  
8 the same 80 acre unit descriptions as are in existence  
9 now under the Oakwood I and II Field Rules. This is a  
10 sealed gob area. It's a little different than normally  
11 we would look at a sealed gob area. Ordinarily when  
12 we've come to you with a sealed gob area it's been a  
13 portion of a mine that has been sealed from the remainder  
14 of the mine. In this instance, as it's been discussed  
15 here before, you're looking at a complete mine that's  
16 been sealed and as such the entire mine becomes the  
17 reservoir area. In looking at this area and one thing  
18 that was discussed, I think, at the last meeting as a  
19 potential for the field rules for this would be to allow  
20 for development of this area under an allowable produc-  
21 tion scenario when allowable production would be estab-  
22 lished for, say, each 80 acre area. My involvement has  
23 been with some of the mine areas surrounding this mine,  
24 but looking at the coal seams involved and the method of  
25 mining it should be very similar to what we have exper-

1 ienced in the Buchanan Mine which is being operated from  
2 a gas standpoint by Pocahontas Gas Partnership in the VP-  
3 8 and the VP-1 areas. We have studied these areas to  
4 determine the recoverable reserve from the areas. The  
5 studies that we have conducted have shown that from a  
6 time period prior to mining through completion of mining  
7 on through production from the gob area after mining is  
8 completed that these areas will liberate 20 to 25 million  
9 cubic feet per acre mined. Those were studies that were  
10 done on some of our existing sealed gob areas. Of that  
11 production approximately 75 percent of it comes out  
12 during the active mining phase with about 25 percent  
13 remaining after the mining has been completed. If you  
14 look at that on an 80 acre basis and let's say we use the  
15 20 million per acre that's about 1.6 BCF of total gas  
16 liberated from an 80 acre area through the mining process  
17 and after mining is completed. 25 percent of that number  
18 would result in a 400 million cubic feet in that 80 acre.  
19 The mining has been done for some ten or twelve years  
20 here. Although it has not been produced exhaustively it  
21 has been venting somewhat for that period. So I would  
22 say that the recoverable reserve remaining was somewhat  
23 less than the 400 million cubic feet. I would estimate  
24 the recoverable remaining reserve for this area in the  
25 300 to 350 million cubic feet per 80 acre area. We would

1 propose that a number somewhere in that range be used as  
2 the allowable production from an 80 acre area. I would  
3 like to encourage the Board and to stress that we don't  
4 get hung up looking at this since we're talking 80 acre  
5 units that we're necessarily talking one well in one 80  
6 acre unit. Because as we've shown you and as you've  
7 pointed out to us on occasion, in a sealed gob area you  
8 can quite often pool more than one 80 acre unit into a  
9 well and for economic considerations it may be expediant  
10 to drain more than that 80 acres through one well. I  
11 would encourage the Board in developing of this field  
12 rules to utilize this 80 acres for establishment of the  
13 allowable production from that area and if two 80 acre  
14 units can be combined and drained through one well that  
15 the production from those two 80 acre units be the  
16 allowable production from that well, not just the area  
17 contained within that 80 acre units that contains the  
18 well. I think from an economic standpoint, from a  
19 conservation standpoint, from practices in the past --  
20 for instance, I'll give you an example. The last sealed  
21 gob hearing we had here, if you will remember, was in the  
22 VP-3 Mine and it was about 1,800 acres and I think we  
23 showed fifteen wells in that area, which I think that  
24 works out to about 120 acres on each well. I believe as  
25 was discussed then we were showing the fifteen wells and

1 we intended to move out and hook up that many wells, but  
2 from a cost standpoint that was, I think, the limit that  
3 you would allow us to hook up on on that area. So I  
4 would encourage the Board to leave some latitude in here  
5 for combining of the areas to make it more economic for  
6 the drainage of the entire area. Another thing that  
7 would have to be address in this, if you'll notice on the  
8 boundaries around the map as I mentioned before we're  
9 suggesting that we utilize the existing 80 acre descrip-  
10 tions for the meets and bounds descriptions of these  
11 areas that we're talking about. The boundaries as  
12 they're on that map because of the mine boundaries,  
13 etcetera, does not always follow an 80 acre unit bound-  
14 ary. So as a result there's going to be some areas on  
15 there that are not complete 80 acre units. I would  
16 recommend that the Board allow production from those  
17 areas by combining with 80 acre units and that whatever  
18 percentage of that 80 acres is within that red boundary  
19 -- if there's 60 percent of the 80 acres contained within  
20 that red area then 60 percent of that allowable produc-  
21 tion would be allowed from that area.

22 MR. HARRIS: Let me ask a question about clarification. I  
23 know you said earlier that there may be -- if you just go  
24 into an 80 acre unit there will probably be differences  
25 among these and you wanted some way to maybe drill one

1 well in a different location or substitute that may be  
2 more efficient. Basically if you look at Row P and look  
3 at P-18 versus P-20 on those right in the center -- in  
4 fact, it's about where the little x is, just above the x.  
5 You come to P-18 which I see is heavily mined and P-20  
6 where we have this block, I assume that's not mined at  
7 all?

8 MR. MORGAN: That's right. A lot of that is not mined. You  
9 have some development work in that that has not been  
10 gotten.

11 MR. HARRIS: What would you expect the difference in produc-  
12 tion to be as is if you were to go in and drill both of  
13 those now? What would you expect the difference to be?

14 MR. MORGAN: I think to produce -- if you produced a well in  
15 this block I think you'd be looking at a stimulated well  
16 probably.

17 MR. CHAIRMAN: You're talking about P-20?

18 MR. MORGAN: P-20. In a stimulated well I think most of the  
19 testimony at the hearings that I've attended or that I've  
20 participated in and in some of the others that I've  
21 attended when OXY was in this area the recoverable  
22 reserve on a stimulated well was also in that 350 million  
23 cubic feet range.

24 MR. HARRIS: That's kind of interesting.

25 MR. CHAIRMAN: While you're up there would you just for people

1           that may not understand the sealing of the mine talk  
2           about how the Beatrice Mine was sealed. Do you mind  
3           working from the other side, Claude.

4   MR. MORGAN: The Beatrice Mine had numerous shafts. Many of  
5           you may have traveled 460 and probably only saw the three  
6           shafts right there adjacent to 460 in the mine area.  
7           Obviously those three in this area were sealed. There  
8           were also ventilation shafts located and outlining the  
9           areas that were sealed and those were sealed completed  
10          from the bottom of the shaft to 1,500 feet or 1,700 feet  
11          of depth all the way to the surface to completely seal  
12          anything from coming out of them. So every shaft in this  
13          mine has been sealed from the bottom to the top.

14   MR. KING: Mr. Chairman, I have a question. You say there's  
15          350 million cubic feet available. How many years of  
16          production do you project? Is there a figure on that?

17   MR. MORGAN: No. I've not tried to tie that to a time frame.

18   MR. KING: Nothing as far as the number of years?

19   MR. MORGAN: I don't think it's in excess of ten years. When  
20          you do the decline analysis that we did on the production  
21          that we've seen that curve comes down from the active gob  
22          stage pretty steep, starts leveling off, and then it gets  
23          almost flat -- a slight decline and then goes on for  
24          quite a number of years.

25   MR. CHAIRMAN: Other questions, members of the Board?

1 MR. GARBIS: Wouldn't it make sense that since this is  
2 basically an open area and you have, I guess, the  
3 galleries. I've never been in a mine but obviously  
4 there's a lot of allowance for migration of the gas that  
5 those that come first who put a well and if one could be  
6 genius enough to somehow be able to have -- be able to  
7 draw more gas out wouldn't the earlier wells be more  
8 able to draw a lot more gas out than those coming back in  
9 the success of time?

10 MR. MORGAN: That's where the allowable production comes into  
11 play. You're only going to allow that first well to draw  
12 out X cubic feet of gas and then he's not going to take  
13 any more because then, of course, then he would be  
14 robbing from the other 80 acre units.

15 MR. LEWIS: Yeah, but didn't you state before if you had two  
16 wells there that would produce you could produce from  
17 those wells and not the others?

18 MR. MORGAN: We think you should be able to combine the 80  
19 acre units and if that's a good draining area that maybe  
20 you drain from 160 acres which would double the produc-  
21 tion from that hole, but all the people in that 160  
22 acres would get their compensation.

23 MR. LEWIS: Yeah, but if you're going to drill more wells I'm  
24 sure that Consol is going to drill where they can get --  
25 wouldn't have to pay the mineral rights if they don't

1           have to -- if it's where they own them their self.  
2 MR. MORGAN: Obviously we're going to drill -- and we have no  
3 plans at this point for a drilling program. We've not  
4 gotten into it to that point. Obviously we will drill  
5 where we have the mineral rights obviously.  
6 MR. SWARTZ: But Consol does not own fee in this mine to any  
7 significant extent at all. Correct?  
8 MR. MORGAN: Consol doesn't own -- Buchanan Production has --  
9 well, there's a considerable area in here that I think is  
10 owned in fee by the Big Vein Group.  
11 MR. SWARTZ: Yeah, but that's not owned by Buchanan Produc-  
12 tion?  
13 MR. MORGAN: No.  
14 MR. SWARTZ: When you're talking about control here you're  
15 talking about leases that we've obtained or Buchanan has  
16 obtained as opposed to --  
17 MR. MORGAN: Right, right. Consol has no ownership.  
18 MR. LEWIS: They have control and that's what counts.  
19 MR. MORGAN: Right. But we would be under the same rules  
20 because we could only pool the same amount from the area  
21 that we control as from any other area. So that remain-  
22 ing production would still be available in other areas.  
23 MR. CHAIRMAN: From your experience in producing from sealed  
24 gob before -- and I know you've recommended 80 acres, but  
25 would a 120 acre field fit that purpose from just

1 producing from just a sealed area or is there a better  
2 drainage area? Does this indicate there's a larger  
3 drainage area we should be considering?

4 MR. MORGAN: If you were going to look at it as one well per  
5 unit you might want to increase the area, but I think if  
6 you'll leave some latitude for combining of them I don't  
7 think it will matter. You will fit the number of wells  
8 to the drainage characteristics in that area.

9 MR. CHAIRMAN: When you talked about the life of the well  
10 estimate being at least ten years is that a productive  
11 life from your experience --

12 MR. MORGAN: Yes.

13 MR. CHAIRMAN: -- that typically they test out to be over ten  
14 years productive life?

15 MR. MORGAN: Yes.

16 MR. CHAIRMAN: Any other questions? Do you have anything  
17 further?

18 MR. SWARTZ: I'd just like to make a couple of comments more  
19 from the standpoint of what a field rules order ought to  
20 address, just some problems that I see which I think  
21 you've identified in some of your questions. This is a  
22 proposal. So in terms of the push-pull that we're  
23 advocating this this is our look at a problem that we  
24 think the Board has identified that needs to be address-  
25 ed. And this is a proposal. I mean, there are various

1 things that can be tinkered with that change this at your  
2 option. I mean, we're not wedded to this as the only way  
3 to do this. As Les indicated to you, we have tried to  
4 follow unit lines where we've got an option. Where the  
5 mines essentially are adjacent to one another we've  
6 followed the boundaries between the mines and to that  
7 extent we haven't been able to follow in some instances  
8 the unit boundaries. But we're -- and these lines are  
9 pretty much cast in concrete. This is the existing  
10 mining and really these lines have to be between the  
11 location of these mines or between the units that  
12 preexist this proposed field rule area. But over here,  
13 at your option, if you see that you would like these  
14 lines to look differently there's no reason why they  
15 can't. With regard to the number of wells what we are  
16 concerned about is that you be aware of the fact that  
17 whatever field rule you adopt it should not force 77  
18 wells to be drilled here because that would constitute  
19 economic waste. If we -- it's kind of a shoe on the  
20 other approach. If I was here today representing a  
21 client who wanted to create a sealed gob unit and we  
22 weren't here on your motion but we were here on a client  
23 of mine's motion and I came to you and said, "I'm  
24 proposing that we drill 77 wells in this area and we want  
25 to allocate that cost to anybody that participates."

1 Your response would be forget it. And what's happened in  
2 the past is when we have come to you and said we want 15  
3 wells in a sealed gob area you have said we're only going  
4 to allow you to allocate the cost of eight of those 15  
5 wells. If you're putting in another seven because you  
6 need to control methane because there's active mining  
7 adjacent to this that's your problem. That's a mining  
8 cost. But we're not going to let you drill a maximum  
9 number of wells. We're going to limit those because over  
10 time -- the theory is, I suppose, that if you put one  
11 well in an entry here and you drew on it for 200 years in  
12 theory I suppose you could get all of the gas out of  
13 here. In theory. It might not be economic over 200  
14 years but you could do it. And what you need to be  
15 looking at is you don't want to adopt a rule that causes  
16 77 wells to be drilled or roughly at \$125,000 a copy --  
17 millions of dollars of wells to be drilled when, perhaps,  
18 15, 20, 25, or 30 wells will be sufficient. But to allow  
19 that to happen -- to not force someone to drill a well in  
20 every one of these 80 acre units there has to be some  
21 ability to combine acreage. I mean, the two options on  
22 the table are what we're proposing and then Benny  
23 suggests an alternative. I mean, I don't have a problem  
24 with that but something needs to happen to allow acreage  
25 to be combined either increase the size of the units --

1 and I think we've got an Oakwood grid and we should stay  
2 with it. It's simple and it will work. But if you  
3 wanted to increase the size of the units you could do  
4 that. Our proposal essentially is if a well is permitted  
5 -- let's just pick a unit. M-20. If a new well is  
6 drilled in M-20 the person who operates that well would  
7 either have to voluntarily pool the unit; in other  
8 words, reach an agreement with all of the mineral owners  
9 in that unit and voluntarily pool the unit. And if that  
10 happens that well could then produce whatever the  
11 allowable production is. What Claude is suggesting is it  
12 needs to be somewhere between 300 million and 350  
13 million. If the owner or operator of this well was able  
14 to voluntarily pool a unit here what we are proposing is  
15 that his allowable in this well be doubled. It wouldn't  
16 have to be contiguous.

17 MR. CHAIRMAN: When you say here --

18 MR. SWARTZ: If he drills a well in M-20 his allowable for  
19 that unit would be 300 to 350 million. If he then is  
20 able to voluntarily pool N-19 he's now picked up a  
21 multiple or doubled his allowable. And that is a way --  
22 you know, it's not the only way but it's the way that  
23 we're proposing that these wells make more economic sense  
24 so that the operators can be encouraged to go lease up  
25 additional acreage, force pool additional acreage, to

1 maybe double or quadruple the allowable that can be drawn  
2 from any given unit. And then, of course, the royalty  
3 gets paid to 320 acres instead of 80 acres if the  
4 allowable gets quadrupled. The other issue that you need  
5 to consider is a proration issue. Claude talked about  
6 this but just to remind you of what we're talking about,  
7 if you look at, for example, M-26 you'll see that this  
8 corner is not in a complete 80 acre unit. It's just a  
9 portion. And what we're proposing is that any field rule  
10 order include a provision that would allow an allocation  
11 of the 300 or 350 million to this M-26 unit based on the  
12 amount of acreage that's actually in this sealed area.  
13 So if this is -- it looks like it might be 60 percent.  
14 If the allowable that you select is -- production that  
15 you select is 300 it would be 180. It could be produced  
16 from a well associated with this portion of this unit and  
17 it would be paid to the folks in the entire unit and  
18 allocated to them. And then the last point I'd like to  
19 make just from a legal standpoint -- and I think you're  
20 on the right page here, the comments I heard this  
21 morning. But the Code and the Regulations talk about an  
22 allowable rate production at times and, in fact, there's  
23 a regulation which says that the Board will not limit the  
24 rate of production from a coalbed methane well. If  
25 there's mining adjacent or near that well and you've got

1 to produce it at full bore to vent the mine that regula-  
2 tion anticipated that and there ought to be some limit on  
3 the rate of production. Obviously ongoing mining is not  
4 an issue here but you need to bear in mind that there's a  
5 difference between what we're talking about here today,  
6 which is the amount of production over some period of  
7 time as opposed to a rate of production. So you need to  
8 be careful in -- I guess this more to Sandy -- drafting  
9 an order to make sure you don't inadvertently refer to  
10 the rates of production because that's not the issue  
11 here. The issue is the amount of production that it  
12 seems reasonable to allocate to any given unit. Thanks.

13 MR. CHAIRMAN: Any questions, members of the Board? Thank  
14 you.

15 MR. MCCLANNAHAN: This would be directed to Mr. Morgan. What  
16 strata would be affected? Anything below the Tiller, is  
17 that what you said?

18 MR. MORGAN: Anything below the Tiller down through and  
19 including the Pocahontas #1 which lies somewhere around  
20 100 to 150 feet below the (Inaudible.)

21 MR. CHAIRMAN: Down to and including?

22 MR. MORGAN: Yes.

23 MR. RATCLIFF: I'm Wyatt Ratcliff with Ratcliff Gas Company  
24 of Oakwood, Virginia. We have a producing well in the  
25 Beatrice Mine Field that's being discussed today. We

1 have about 50 homes using gas from this particular well.  
2 It is a well that is producing a very small amount of gas  
3 at the present time and we want to protect the vested  
4 interests that I have, the rights that have been granted  
5 to me by this Board. I feel that by passing a rule that  
6 would cap production of this small well to where it  
7 couldn't serve it's customers would be discriminating  
8 against me and the company. Since I have at this time  
9 the only producing gas well in this field I have no  
10 objections to putting a cap on all the wells that Consol  
11 might put in the area, but I think that this particular  
12 well that has been there since the early seventies should  
13 be granted the right to produce the amount of gas that it  
14 takes to supply the small community that we're now  
15 serving and the other proposed communities in our area.  
16 I don't fully understand how a cap would benefit because  
17 all you've got to do is put in extra wells and you will  
18 get what ever gas that the market is asking for. I'm  
19 sure that it's a hard decision for the Board to make, to  
20 set these field rules to where they will be fair to all  
21 of the people -- the mineral owners and the drilling  
22 companies. You've got a big job ahead of you. I  
23 wouldn't want to be in your shoes. But I do ask that you  
24 consider this small producing well that is there and  
25 about placing restrictions on it.

1 MR. HARRIS: Just a couple of questions, Mr. Ratcliff. You  
2 said that you're producing next to -- you said very  
3 little gas at the time.  
4 MR. RATCLIFF: Very little.  
5 MR. HARRIS: Do you know what the production rate is? Do you  
6 have any idea of how much has been produced over the  
7 years since this well has been in existence?  
8 MR. RATCLIFF: From 1973 through 1992 we've had about 80 some  
9 homes on it.  
10 MR. HARRIS: But it was not metered at that time, though?  
11 MR. RATCLIFF: It wasn't metered. No, sir. Since 1992 I've  
12 complied with the new laws and regulations to get the  
13 well permitted. At that time all these homes had to be  
14 severed from the well. Since that time Virginia Gas  
15 Company now is distributing from this well into the  
16 community. We want to be sure that you take into  
17 consideration when you're making these field rules what  
18 might happen to this particular well if these rules are  
19 carried out to where we couldn't meet the demands of the  
20 citizens of that community.  
21 MR. HARRIS: Mr. Chairman, could I make just a statement here?  
22 MR. CHAIRMAN: Sure.  
23 MR. HARRIS: One of the -- of course, you're aware of -- the  
24 concerns we're faced with is what do with people who live  
25 in various areas and as I understand this this basically

1 could be a big bladder. The whole thing could be a big  
2 77 80 acre unit -- I wrote the numbers down in total.  
3 But anyway, it's just a bladder full of gas. So where  
4 ever you punch this hole you're going to get a certain  
5 amount of gas and a certain amount of pressure or  
6 whatever. One of the concerns we're faced with now is  
7 how to -- if you start drilling in one section is that  
8 going to drain gas from other places. And given enough  
9 time and whatever conditions there are it probably will.  
10 I'm not saying -- that's what we were talking about  
11 earlier. It could take 200 years maybe, you know, you  
12 could pump on one well for that length of time. But that  
13 is decreasing the amount of gas available to other people  
14 in the area. Of course, the reason for the cap is that  
15 you may hit a particular hot spot and that may be feeding  
16 two-thirds of the rest of it. And if there is no cap  
17 then that amount of production even though if it's done  
18 through regulations and there will be people who benefit  
19 -- the royalty owners and the mineral owners would  
20 benefit from that, but that does again reduce the ability  
21 for other people who are living in this whole area to get  
22 there total production. And that's a concern that I  
23 would have, I think, with what your proposal is. I  
24 realize what you are saying is that we've had this set up  
25 and this has worked fine once we've gotten is set up,

1 let's not mess with it. But I think the reality is if we  
2 come in -- not we. But if the companies come in and  
3 drill all around it's going to reduce your pressure  
4 probably but everybody is drilling in the same pool and  
5 the whole intent here is to try to spread this around  
6 economically as much as possible. And that's the reason  
7 for the caps; because of you get a particular area that's  
8 very productive then that will tend -- if it's very  
9 productive it's probably drawing from some of the other  
10 areas which will decrease there. So that's why they're  
11 recommending maybe putting a cap on, because it would  
12 limit the pressure.

13 MR. RATCLIFF: They didn't break this down to monthly, weekly  
14 or daily production. Those are the figures that I need.  
15 They based it on a reservoir lasting ten years at 300  
16 million. But what's that going to do to daily production  
17 from a well? Are we talking about they can only produce  
18 one million or --

19 MS. RIGGS: I think what they proposed as I heard it is  
20 they're not suggesting that the rate at which you produce  
21 it be regulated, only the total cap over the entire life  
22 of the well be set -- the outer limit.

23 MR. RATCLIFF: Total cap?

24 MS. RIGGS: Is that not what I heard? I thought that's what I  
25 heard.

1 MR. HARRIS: That's why I was asking if you knew what the  
2 production was. The rate isn't so much the issue even  
3 though you said it was coming in very slowing, I think.  
4 That may not have been your exact term. The total amount  
5 of production -- but see, it's hard for me to envision  
6 when I say 300 million cubic feet -- it's hard to  
7 envision 300 million of them and how long it would take  
8 with a normal well. Is your bore size typical for what  
9 the other folks would be drilling?

10 MR RATCLIFF: This well is 1,078 foot. The Beatrice Mine is  
11 approximately 1,300 foot in the same area.

12 MR. GARBIS: I'm talking about the inside diameter of your  
13 pipe.

14 MR. RATCLIFF: It starts off at ten inches and goes down to  
15 eight.

16 MR. HARRIS: Is this typical for -- these numbers don't sound  
17 typical.

18 MR. GARBIS: Mr. Morgan, what's typical for what you have?

19 MR. MORGAN: The new wells that we drill now for active gob we  
20 usually put in a thirteen three-eighths casing and drill  
21 a twelve and quarter open hole on down. This is an older  
22 hole that Wyatt is hooked up to. So it is a smaller  
23 diameter hole. Going into this type of area, though, we  
24 put that thirteen and three-eights casing in to handle an  
25 active gob which has much higher volume rates. So the

1 hole that he's got is over sized probably --

2 MR. GARBIS: What are the typical pressures -- if you have a  
3 pump on the top side what typical pressure is the gas  
4 coming out of the ground?

5 MR. MORGAN: I think the pressure has been monitored out of  
6 Mr. Ratcliff's well at about 200 pounds, right?

7 MR. RATCLIFF: This well has been holding about 185 pound for  
8 the past six months. It was up to --

9 MR. GARBIS: Mr. Morgan, in your experience what are the other  
10 wells pressures? Is that the right range, 200?

11 MR. MORGAN: We haven't monitored in the Beatrice Mine area  
12 any with this being sealed. In the active operations we  
13 won't let pressure like that build up because it could  
14 back gas out into the mined area. So, in fact, on a lot  
15 of our holes we would actually pull a vacuum to keep the  
16 pressure from backing into the mined area.

17 MR. FULMER: On the pressure, Mr. Ratcliff's well averages  
18 around 318 PSI shut in pressure and that's basically what  
19 the Beatrice Mine is about doing, 318. What he was  
20 talking about, 165 or whatever, is the production  
21 pressure through the line. That's what they've drawn it  
22 down to in pressure on the production end of it -- on  
23 Virginia Gas right now. If that well was shut back in it  
24 would probably go up to 318 pounds.

25 MR. LEWIS: Yeah, but that would be the well head pressure.

1           It wouldn't be the line pressure.

2   MR. FULMER: His well head pressure right now is the same as

3           his line pressure which is 165.

4   MR. LEWIS: I know that in production it is.

5   MR. FULMER: Yeah.

6   MR. LEWIS: But when the well was out of production --

7   MR. FULMER: It's 318 pounds.

8   MR. LEWIS: Right.

9   MR. RATCLIFF: It was, Mr. Fulmer. It is now down to 185

10           pounds and was before Virginia Gas tied into it. I think

11           the line pressure leaving out of there is 70 pounds.

12   MR. LEWIS: You've got 70 pounds at the well --

13   MR. RATCLIFF: The well pressure going into Virginia Gas

14           distribution line is 70 pounds?

15   MR. LEWIS: They have a compressor on that?

16   MR. RATCLIFF: No. This is natural pressure from the well.

17   MR. CHAIRMAN: Overall let me understand clearing what you're

18           -- you're objecting to any cap on your well -- on that

19           one well?

20   MR. RATCLIFF: That might limit that well to the needs of the

21           citizens in that community.

22   MR. CHAIRMAN: For that well?

23   MR. RATCLIFF: For that well.

24   MR. CHAIRMAN: You're not objecting to the field rules or for

25           production caps on any of the other wells that might be

1           in the future produced in any of the unit?

2   MR. RATCLIFF: I wouldn't have any objection to that.

3   MR. LEWIS: You don't have any objections if they come in

4           there and want to combine two wells and double their

5           production? You don't have no objection to that?

6   MR. RATCLIFF: Of course I would, yes. Absolutely.

7   MR. LEWIS: I just wondered.

8   MR KING: When was Mr. Ratcliff given permission to drill the

9           well and produce?

10   MR. RATCLIFF: I can give you some history of the well.

11   MR. LEWIS: I don't want to do into a lot of detail.

12   MS. RIGGS: I think that whole package was included in your --

13           the last hearing, that package that was in your agenda on

14           Diane Graham that Tom did the presentation on. It was in

15           a blue folder and it contained all the documents. I

16           don't know if anybody has their's with them but the Board

17           has been given a complete history, I believe, at the last

18           hearing. I don't have mine. It was on the application

19           of Ms. Diane Graham when she came in to modify that

20           drilling unit last month -- or the month before that.

21   MR. RATCLIFF: That's all I have to say.

22   MR. CHAIRMAN: Any question.

23   MS. RATCLIFF: I'm Sherry Ratcliff. How many wells currently

24           serve Buchanan County? Could some one answer that?

25           Actually produce and serve Buchanan County.

1 MR. HARRIS: Excuse me. When you say serve do you mean  
2 deliver?  
3 MS. RATCLIFF: Yes. How many wells are currently producing  
4 gas that serve the citizens of the county?  
5 MR. CHAIRMAN: I'd ask Tom Fulmer if he knows that number.  
6 MR. FULMER: The question does it actually serve --  
7 MS. RATCLIFF: Stay in the county.  
8 MR. FULMER: You want to know how much gas is being produced  
9 from Virginia wells that are going to supply Virginia  
10 citizens?  
11 MS. RATCLIFF: In Buchanan County.  
12 MR. FULMER: Virginia Gas Company, their wells in both  
13 Dickenson and Buchanan County is going into Buchanan  
14 County. Mr. Ratcliff's well. That's the only ones  
15 currently, I think. There may some Columbia gas that's  
16 being exchanged to Virginia Gas.  
17 MR. CHAIRMAN: Do you have an estimate on this?  
18 MR. FULMER: No. I don't have an estimate on how much gas  
19 coming out of Virginia wells is going into Buchanan  
20 County.  
21 MS. RATCLIFF: How many wells are there in Buchanan County?  
22 Maybe I can ask that. Where is the other gas going, I  
23 guess?  
24 MR. FULMER: Most of the gas is going out of state and back  
25 into Virginia and served Tidewater, Richmond, so forth.

1 The number of actual wells producing in Buchanan County,  
2 supplying gas, is 660.

3 MS. RATCLIFF: And those are serving what areas? Where are  
4 the natural gas lines in the area? Slate Creek is one  
5 and Garden Creek is another.

6 MR. FULMER: There's several outlet interstate lines and one  
7 of them is Consolidated Production Company. I believe  
8 that's what they're called now. Which is up Slate Creek.  
9 That goes up into West Virginia. There's the Cardinal  
10 States line. Then there's the Columbia gas transmission  
11 line out of Conway. And then there's the line that was  
12 owned by Virginia Gas Company which takes gas out also.  
13 Locally the only gas being used by citizens in the County  
14 of Buchanan is through a franchise that was granted to  
15 Virginia Gas Company. And that may be varied gases  
16 coming from Dickenson County, Buchanan County or other  
17 companies who transfer gas to Virginia Gas Company.  
18 Those are the only authorized people to distribute gas.

19 MR. LEWIS: I think most of the gas that's used in Buchanan  
20 County comes off of the Dismal section and part of Slate  
21 Creek.

22 MR. FULMER: Virginia Gas has got some wells up in there, but  
23 they've also got a transverse agreement with Columbia  
24 Natural Resources from Dickenson County. They transfer  
25 gas to Columbia and then up to Buchanan County. So

1           that's the reason I mentioned Dickenson County.

2 MS. RATCLIFF: I have another question, if I may. Will these  
3 field rules apply to any other area of the county or just  
4 -- why is it just this being addressed, why not for all  
5 the gas wells in the county and the state. This is a  
6 State Board.

7 MS. RIGGS: Under the Gas and Oil Act there are several ways  
8 that this Board is prompted to act on application or on  
9 it's own motion. One is for the creation of individual  
10 drilling units. When somebody's ready to drill a well  
11 they have to create the unit that that well will draw  
12 from.

13 MS. RATCLIFF: I understand that.

14 MS. RIGGS: And the other is under 45.1-361.20 of the Virginia  
15 Code that gives this Board the duty to establish field  
16 rules. And there's a whole list of purposes that field  
17 rules serve and ones to protect correlative rights which  
18 is the issue we're talking about here. A correlative  
19 rights theory is a theory whereby everybody in a pool --  
20 a contained pool -- has an equal chance at recovering  
21 their share of the mineral contained within that pool.  
22 And the Board is given the duty of creating field rules  
23 to set up an allocation process to assure that that  
24 fairness is reached in accordance with the requirements  
25 of the law. So if someone comes in and says, "We're

1 going to produce in this area and we want you, Board, to  
2 set up the allocation process through an application" the  
3 Board can do that. Or if the Board sees drilling  
4 activity occurring in an area and correlative rights are  
5 at issue the Board on its own motion can institute that.  
6 In this particular case with the Beatrice Mine the Board  
7 already had field rules in place. They had 80 acre units  
8 established under what was called the Oakwood I Field  
9 Rule. And that addressed production of gas in advance of  
10 mining. Then they imposed Oakwood II Field Rules and  
11 that addressed the production of gas during active  
12 mining. Now, what's happened last December is that mine  
13 got sealed. So the Oakwood I Field Rules (in advance of  
14 mining) the Oakwood II (during mining) are no longer  
15 applicable to this area. So now what the Board has to  
16 face is the field rules that are already established for  
17 this area have now changed because the nature of the  
18 container changed when they sealed off those shafts. So  
19 they've got to modify the field rules to address a sealed  
20 gob area which is what you get when you have a sealed  
21 mine. I know that's the long way around an answer, but  
22 the Board has put field rules in this area before. In  
23 fact, two sets of field rules in the past. They just  
24 didn't address sealed gob production. They addressed  
25 fracked and active gob.

1 MR. HARRIS: Let me ask -- if I understand your question. You  
2 said something about field rules over the state and that  
3 may have answered that. But you're saying why don't we  
4 have everything in place for everybody --

5 MS. RATCLIFF: Right.

6 MR. HARRIS: What she's talking about the different field  
7 rules -- if you go out in just the mountains and drill a  
8 hole and just happen to hit a pocket of gas there are  
9 some regulations that govern how much you can produce and  
10 who you have to pay money to and whatever. If you're in  
11 a mining area in particular then a lot of gas is being  
12 produced just from the mining activity breaking up the  
13 coal and you have a lot more gas produced. But if you're  
14 in one little section of the mine then there's -- or  
15 doing longwall then that's going to produce gas in a  
16 slightly different manner than if you're doing other  
17 kinds of mining. And that's why the different field  
18 rules are there. The other thing is that the sealed gob  
19 -- the way this is, once this is open then this is what  
20 we've been saying. This whole area that's in the red, a  
21 particle of gas could start over in the upper left corner  
22 and then over the years just sort of migrate around.  
23 Well, if you own property up there that's your gas that  
24 just went to someone else. So what we try to do is  
25 establish a rule for how do we get the gas out, how do we

1 pay people when we do get it out, this kind of a situa-  
2 tion. And the problem is that we've really never --  
3 we've never dealt with this on a large scale in the  
4 past. The Board hasn't. So that's one of the problems  
5 that we have now. We don't know -- I don't want to say  
6 we don't know what to do, but the problem is that there  
7 are some dilemmas that we're wrestling with as we speak.  
8 But it's different environments. If it's mining that  
9 this is taking place, if it's in just an area that we  
10 know contains a certain amount of gas, or whatever. But  
11 that's why the rules are -- and that's why there's a  
12 little bit of confusion here. Someone said the first  
13 person who drills a well is going to get all the gas.  
14 It's going to take a while to do that, but conceivably  
15 you could sit there and pump on the gas or allow it to  
16 come out for 100 years and you may drain the whole thing.  
17 That's not going to happen that way.

18 MR. LEWIS: Usually in a case like you're talking about when  
19 ever one company goes in and drills a well and they hit a  
20 pretty good well then another company that owns the  
21 minerals next to that or owns close to it will come in  
22 and they'll offset that well to get their part of the  
23 gas. That's the way it works.

24 MR. HARRIS: When you say offset can I ask you --

25 MR. LEWIS: Offset means they drill one as close as they can

1 to it to get their amount of the gas.  
2 MR. HARRIS: Within the legal boundary.  
3 MR. LEWIS: Within the legal boundary which is governed by the  
4 State.  
5 MR. HARRIS: That's understandable.  
6 MR. GARBIS: Mr. Ratcliff, let me ask a question. Am I to  
7 believe that all the gas coming out of your well basicall-  
8 ly only serves residents of Buchanan County?  
9 MR. RATCLIFF: Yes.  
10 MR. GARBIS: So, in other words, in its entirety every bit of  
11 gas that comes out of your well just serves the local  
12 citizens?  
13 MR. RATCLIFF: Yes.  
14 MR. HARRIS: I'm confused. Did you not say Virginia Gas is  
15 distributing --  
16 MR. FULMER: Just please clarify that. He sells to a company  
17 who has a right under a franchise from the State Corpora-  
18 tion Commission to supply gas as a public utility.  
19 MR. RATCLIFF: Yes. That's right. Now, at this time it  
20 serves the citizens of Buchanan County.  
21 MR. HARRIS: Do you produce more than what's used?  
22 MR. RATCLIFF: I could produce much more than what's used.  
23 Yes.  
24 MS. RATCLIFF: How many people do you serve currently?  
25 MR. RATCLIFF: Approximately 53 families right now with others

1 going on.

2 MR. SWARTZ: Virginia Gas is a public utility and it serves  
3 these customers. He sells his gas to Virginia Gas. If  
4 his well is capped at 300 or 350 Virginia Gas has a  
5 certificate to operate in this area and it's Virginia  
6 Gas' obligation to continue to service its customers.  
7 And they're going to have to go out and buy more gas. I  
8 think we're sort of crossing lines here. I mean,  
9 Virginia Gas is a public utility. It's authorized by --  
10 I can never remember who regulates them because --

11 MR. FULMER: State Corporation Commission.

12 MR. SWARTZ: They have an obligation to -- Virginia Gas has an  
13 obligation to continue to service these customers. And  
14 if at some point in time a cap is reached it is Virginia  
15 Gas' obligation to see that they continue to supply these  
16 customers. You need to keep that in mind.

17 MR. LEWIS: They're obligated to do that.

18 MR. SWARTZ: Right, under their certificate.

19 MR. KING: I have a question. If his well is capped and there  
20 are other wells drilled in this area they could sell to  
21 Virginia Gas?

22 MR. SWARTZ: Right. And Virginia Gas is related to a produc-  
23 tion company -- I mean the utility, I assume, is a free  
24 standing company. But it's related to a production  
25 company that produces gas. They have a sister company

1           that they buy a lot of their gas from.

2 MR. GARBIS: And turning to the individual 50 customers, they  
3           pay for the consumption that they use. So --

4 MR. SWARTZ: They pay a utility bill just like --

5 MR. GARBIS: Right. So really conceivably they could care  
6           less whether the gas comes from your well, my well or  
7           whoever's well?

8 MR. SWARTZ: Well, they certainly care that they have it and  
9           it's important. I guess the point -- the only point I'm  
10          making is that Virginia Gas is part of -- it's a franch-  
11          ise and has an obligation to continue to supply that  
12          service independent of whatever happens with regard to  
13          this well. For example, if there was a problem with  
14          this well and it collapsed or ceased to produce these  
15          customers might not be happy about that but it would be  
16          Virginia Gas, the utility's obligation to step forward  
17          and solve that problem and continue to supply them. You  
18          need to keep that in mind.

19 MR. LEWIS: Another thing we need to keep in mind, too, is  
20          like you said, if they get to where they cannot produce  
21          enough to give the customers what they need they're going  
22          to have to go buy that. I don't know what he's getting  
23          for his gas, but they may have to pay double for that.  
24          And then you're passing that expense on to the customer.

25 MR. SWARTZ: I would hope that they're paying Mr. Ratcliff

1 market price.

2 MR. LEWIS: I don't know about that, but that's what it  
3 amounts to. It's passed on to the consumers.

4 MR. CHAIRMAN: Any other questions, Mr. Ratcliff?

5 MR. RATCLIFF: I don't have any other questions. A lot of  
6 this is over my head. I am reliant on this Board to  
7 protect my rights and the rights of the people of this  
8 community. This well is not going to produce like the  
9 other wells around me are that are producing possibly in  
10 the millions of cubic feet monthly. I think this well --  
11 the cap shouldn't be set so as to force Virginia Gas to  
12 have to buy off of another well that's drilled beside of  
13 it. I think it's -- I don't know what the cap is going  
14 to be, whether you're going to have something out there  
15 to where this well will even be affected or not. That's  
16 what I'm asking. I'm asking that the cap be placed on  
17 this particular well, that it conserve the needs of the  
18 community. That's important. I think with the permitt-  
19 ing and the rights that this Board has vested in this  
20 well and then come up in the middle of the stream and  
21 say, "Hey, we're throwing all of these out. We're going  
22 to let you start over again new" I think is discriminat-  
23 ing. It's not right and I ask the Board to keep this  
24 well in mind when they make these rules. That's all I  
25 have to say. Thank you.

1 MS. RATCLIFF: I'm Grace Ratcliff. Why should a cap on it? I  
2 own part of the well. We should be able to if we want to  
3 sell more or if we want to expand we shouldn't be capped  
4 and not just limited to our 50 customers around us.  
5 Expand if we want to.

6 MR. RATCLIFF: It doesn't meet expense as it is now.

7 MS. RATCLIFF: No, it's not.

8 MR. RATCLIFF: I'd like to see that well produce enough gas or  
9 at least break even. It never has.

10 MS. RATCLIFF: I'd like to sell to Garden Creek.

11 MR. HARRIS: I don't know if I need to continue this. This  
12 goes back to the other Ms. Ratcliff who was here asking  
13 the question about gas going to Buchanan County. When  
14 it's pumped it goes into a gathering line. It may go to  
15 New Jersey. And then when the folks in Virginia want gas  
16 it's piped back down and then sold. So I don't know what  
17 the set up is where you all are, Mr. Ratcliff. I may  
18 have called you Mr. Wyatt earlier and if I did I apolo-  
19 gize. But, Mr. Ratcliff, the neighborhood that you're in  
20 does the gas come out of your well and then they take  
21 that and distribute it there or does it go into the lines  
22 and they supply gas? Do you see what I'm saying? In  
23 other words, if you put a yellow die in that gas as it  
24 came up out of your well is that the actual gas that  
25 people in that community are using or is Virginia Gas

1 taking the gas, pumping it to some other kind of --  
2 they're actually using that gas?

3 MR. RATCLIFF: Yes. It isn't near any distribution line  
4 that's going out of the county.

5 MR. HARRIS: Because they had all the licenses and stuff and  
6 put the connectors in --

7 MR. RATCLIFF: They have some lines in the Dismal area, but  
8 nothing near this well.

9 MS. RATCLIFF: But I would like to expand. I'd like to go  
10 right on down to Garden Creek. But if we have a cap we  
11 can't.

12 MR. MORGAN: Mr. Chairman, if I could, maybe I could address a  
13 couple of Mr. Ratcliff's concerns. With the proposal as  
14 we have laid it out, as a possibility for the Board to  
15 consider, I understand what Wyatt's concern is. To give  
16 you a little bit of a feeling for the numbers, at the  
17 time I think he says he has 50 -- or Virginia Gas has 50  
18 customers hooked up to this well and I understand he  
19 wants to expand that. But let's look at those 50  
20 customers. I think I read in the API Journal that the  
21 average household that's fully gas will use about 100,000  
22 cubic feet a year. So those 50 customers are going to  
23 use 500 million cubic feet a year. That well with a 350  
24 million cap would serve those 50 customers for 70 years.  
25 The other thing is that you if want to expand the

1 proposal as I've put it forth, I think, if he has a well  
2 there that's capable of doing considerably more than that  
3 -- the proposal as I think I outlined would allow him to  
4 combine that 80 acre that it's on with another 80 acre  
5 unit and expand that cap to 700 million cubic feet out of  
6 that well. But it would allocate the production to the  
7 proper owners of the oil and the gas or the coalbed  
8 methane owners as the situation. So I think the proposal  
9 as it's drawn here could -- if structured properly it  
10 could take care of Wyatt's concerns. And I understand  
11 his concerns.

12 MR. LEWIS: Do you think it would take care of his concerns if  
13 he wanted to expand and pick up more customers?

14 MR. MORGAN: By simply increasing the area --

15 MR. LEWIS: But he'd have to buy gas from the other --

16 MR. MORGAN: Or just expand his area. He's set up on 80 acres  
17 now which as he sets right now he has no field rules to  
18 cover him. But the 80 acres he's on now, if that was  
19 expanded to 160 then under this proposal he would have an  
20 allowable of 700 million cubic feet out of that well.  
21 And that's an enormous flow out of one well. So I think  
22 the rules can be made to fit his situation and to take  
23 care of his concerns, I believe.

24 MR. GARBIS: To the Ratcliff family, I want to try real hard  
25 to be fair and I want to make sure that the citizens are

1 not being overtaken by the power of the government and  
2 the larger industry. But I think what you're asking me  
3 to do -- and I take this personal -- is to grant you an  
4 exception. I'm not sure that I can really have -- I  
5 can't rationalize it because basically by providing you  
6 an exception really you're potentially putting someone  
7 else at the other side of this area at a disadvantage. I  
8 mean, we have to try to be fair to everybody, not just  
9 say because you were here before -- and I understand the  
10 background. But it's very difficult to be fair to  
11 everyone and I think that's our charter, to be fair to  
12 everyone inside -- that we're representing inside this  
13 block. So to grant you an exception -- and I think  
14 that's what you're asking -- personally I have a hard  
15 time with that. I think some of the things that were  
16 brought up as far as -- with Virginia Gas -- you're  
17 right. It's not even relevant almost because that's a  
18 different situation where people are buying, as we all  
19 do. We have to buy gas from a public utility. But I  
20 think really as far as I'm concerning that requesting an  
21 exception -- I'm having a hard time with that.

22 MR. LEWIS: You're looking at an exception for him or an  
23 exception for Consol because they're asking you to put a  
24 cap on those wells. You're looking at both -- it could  
25 be either way.

1 MR. SWARTZ: Allowable production did not come from us. It  
2 came from the Board. I suppose in theory, as unfair as  
3 this would be, we've got the resources to put 50 pumps  
4 out here and just duck this thing in five years. I mean,  
5 we're not talking about that. But the allowable produc-  
6 tion -- I don't want to be tagged with that idea. I  
7 think it's a good idea but it came from the Board, not  
8 from us.

9 MR. GARBIS: The allowable production, I think, is the only  
10 way that one could fairly -- as you say, if I were in  
11 your position I would be very aggressive. I'd put a pump  
12 up there. I'd drain that thing in a heart beat.

13 MR. SWARTZ: Well, there's a reason why Consol is not produc-  
14 ing from this area. This is 6,000 acres with a lot of  
15 gas and there are two reasons why no one except Mr.  
16 Ratcliff has been producing from that area. The first  
17 reason is it would probably cost a couple hundred  
18 thousand dollars conservatively for us to do title on  
19 6,182 acres. And unless under current rules with regard  
20 to sealed gobs -- unless someone ponies up the hugh  
21 dollars that are required -- I mean, it can cost \$50,000  
22 an 80 acre unit if you start running into problems to do  
23 title. And the biggest reason we're not in there --  
24 there are no producing coalbed methane wells in there  
25 operated by anybody except Mr. Ratcliff. And the primary

1 reason is the title cost is humongous which is hundreds  
2 of thousands of dollars. In addition we're not willing  
3 to take the risk of going in, pooling an 80 acre unit and  
4 then drawing on that to the maximum technological ability  
5 that we have because what do we say to other lessors that  
6 we have in there when we're just paying the lessors who  
7 happen to be lucky enough to be in an 80 acre unit that  
8 we're drawing hundreds of million cubic feet of gas out.  
9 What do we say to the rest of our lessors? We have a  
10 legal problem visa via our other lessors in terms of  
11 that kind of conduct which Mr. Ratcliff doesn't have not  
12 have that particular problem. Those are the two reasons  
13 why we don't have any wells there, title costs and what  
14 do we do about people that we have leases with whose gas,  
15 in effect, we're taking but we're not paying them  
16 royalty. I mean, these are very real concerns that have  
17 prevented us from doing anything in that area. And I  
18 think a benefit that Mr. Ratcliff derives that he may not  
19 appreciate at this point in time in terms of what Mr.  
20 Morgan was saying is the same opportunity potentially to  
21 double units. I mean, he has now gone from looking at  
22 spending a couple hundred thousand dollars to do title on  
23 681 acres to if he wants to double his allocable produc-  
24 tion limit doing title on 80 acres and the economic  
25 advantages associated with that. So, I mean, hopefully

1           whatever you do can be applied to everybody in a uniform  
2           way, royalty owners, operators alike. And rationally  
3           applied to them at least you stand back and look at it  
4           and it seems fair. That ought to be the goal and I  
5           assume it is your goal.

6       MR. LEWIS: You're talking about doing title search on all  
7           these but on the other hand you was asking to pool some  
8           of these.

9       MR. SWARTZ: Which would require you to do title. You can't  
10          pool without doing title.

11       MR. LEWIS: I know.

12       MR. SWARTZ: The only difference between a voluntary -- you do  
13           the same amount of title and what causes you to have a  
14           voluntary unit as opposed to a pooling is you can't lease  
15           100 percent of the folks who you've identified in your  
16           title research.

17       MR. LEWIS: It becomes a unit.

18       MR. SWARTZ: Right. So you can't form a voluntary and so  
19           you've done the title and you're missing 5 percent of the  
20           unit or 10 percent and you've got to pool the balance.  
21           But you still have to do that title up front whether you  
22           pool or not.

23       MR. CHAIRMAN: Any other testimony for the Board?

24       MS. RATCLIFF: I know they think we're an exception but we're  
25           also a minority. Think of the expense a little person

1           like we are has already gone through. We did title  
2           search on, I guess, 36 people -- owners in our 80 acres  
3           and we can't compare to a big company. We are a minor-  
4           ity. We're little. So I don't think we're an exception.

5       MR. SWARTZ: Well, if you assume a gas price of \$2 an MCF  
6           we're talking about 300 to 350,000 MCF which is 600 to  
7           700,000 dollars. It's a lot of money regardless of  
8           whether a person gets it or a company. They're not  
9           looking at any of the transportation costs that we're  
10          looking at right now. But in terms of -- you need to  
11          look at the economics of the well. A well with a cap of  
12          300 million or 350 million cubic feet at \$2, which is  
13          less than it's been recently. I'm just picking a number.  
14          It's going to throw up a lot of money. Unfortunately it  
15          goes down, too. In the last year it's been pretty bad  
16          and it's been doing good.

17       MR. CHAIRMAN: Any other testimony for the Board regarding  
18          this?

19       MR. McCLANNAHAN: I'm Mark McClannahan. I'm here representing  
20          Mack Construction. Under the current limits of the  
21          Beatrice Mine #1 Mack Construction would not be affected,  
22          but as these gentlemen have said, these boundaries could  
23          change. And if they do change a little bit Mack Con-  
24          struction could very much be affected. What I'm here  
25          for is basically to present you some agreements that we

1 have with Island Creek Coal Corporation. We do have  
2 interest and title in three VVHS that are in the N-13  
3 section which would be -- if the limit changed three  
4 units that would encompass us. And I'm here  
5 basically --

6 MR. HARRIS: Did you say N-13?

7 MR. McCLANNAHAN: N-13. If I could, I would like to just  
8 leave these agreements with you all. That's basically  
9 all I'm here for.

10 MR. MORGAN: Would N-13 be on beyond --

11 MR. CHAIRMAN: Outside of this current established area. Of  
12 course, you understand if the Board were to establish  
13 rules based on that that those -- that would all have to  
14 come back before the Board to expand that at some future  
15 time.

16 MR. McCLANNAHAN: Yes. I just wanted to bring that up. Since  
17 these are apt to chance I did want to bring to your  
18 attention that Mack Construction could also be affected  
19 and this is the reason why.

20 MR. CHAIRMAN: You are currently protected by the field rules  
21 that are in effect for Oakwood I and Oakwood II in that  
22 area as well. Thank you.

23 MR. HARRIS: I can understand the Ratcliff family's concern  
24 because this is potential income that, I guess, you all  
25 look at us as messing with -- or somebody is messing with

1 in terms of earnings potentially in the future. Of  
2 course, everyone is concerned and I'm sure I would be  
3 concerned if I were in the same situation. But I'm  
4 interested in Mr. Morgan's comments about how long the  
5 expected life of that well would be with a cap. What  
6 you're doing is saying based on the amount of gas that is  
7 currently taken out?

8 MR. RATCLIFF: Right.

9 MR. HARRIS: And the number of people that's serving in this  
10 particular situation versus the cap and you're saying  
11 that that life expectancy would be 30 years, 70 years?  
12 What did I hear you say?

13 MR. LEWIS: Ten years.

14 MR. MORGAN: I think what I said is a 350 cap -- the concern  
15 was with the cap. A 350 cap at the rate it is being  
16 drawn out right now would last 70 years.

17 MR. HARRIS: With a cap. So then -- of course, it would  
18 affect generations down the line. But we're talking 70  
19 years of production with nothing changing. I mean, if  
20 they put the cap on or didn't put the cap on -- if they  
21 put the cap on it would still have 70 more years of  
22 production as you are now.

23 MR. SWARTZ: You've got to factor in, Mr. Harris, if we get  
24 more wells -- if we improvise these rules I think what  
25 Mr. Morgan said was that he gathered this was -- correct

1 me if I'm wrong. It's just a shoot in the dark, but that  
2 he was looking at least ten years for this reservoir  
3 basically. If a number of people availed themselves of  
4 the field rules and we started to make some production.

5 MR. HARRIS: So every time someone drills a well that's going  
6 to obviously reduce the overall --

7 MR. SWARTZ: It accelerates the removable of the recoverable  
8 reserves.

9 MR. CHAIRMAN: Any other testimony for the Board? There being  
10 none -- typically I don't do this but for the Board's  
11 consideration I would propose that we work with Sandy to  
12 draft a set of rules for consideration at next meeting,  
13 carry this forward to have time to think about it and  
14 have it back on the agenda. People will have an opportu-  
15 nity to look at that and we'll take testimony again  
16 before we make a decision. This is something that we  
17 don't want to make a snap judgement on clearly. We all  
18 want to make sure we do what's fair and what's right and  
19 what we're mandated by law and regulation to do. That  
20 will give us an opportunity to see what it's going to  
21 look like and further reflect on the actual impact it  
22 may have on people and give those impacted an opportu-  
23 nity.

24 MR. KELLY: I'd make a motion to that effect.

25 MR. GARBIS: Second.

1 MR. CHAIRMAN: Further discussion? All in favor signify  
2 by saying yes. (ALL AFFIRM.) Opposed say no. (NONE.)  
3 Unanimous approval. That will be carried forward to the  
4 next meeting, Tom. Let's take a five minute break and  
5 then take up the next item.

6 (AFTER A BRIEF RECESS, THE PROCEEDINGS CONTINUED AS  
7 FOLLOWS:)

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