

KVLA

KILLBUCK VALLEY
LANDOWNERS ASSOCIATION

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April 20, 2012

Dear Killbuck Valley Landowners Association Member:

INTRODUCTION

This newsletter will update Association members of recent developments in the Utica Shale in Ohio and efforts on behalf of the Association to market your acreage. We plan to use monthly newsletters to keep everyone informed, and to also help dispel rumors that are spreading across the county.

UPDATE ON KVLA MEMBERSHIP AND ACREAGE

The Association currently consists of about 576 members holding approximately 36,850 acres in western Holmes and Coshocton Counties. One of the guiding principles of this Association is that landowners do not commit their acreage until a lease is signed, and the decision to sign a lease is the individual landowner's decision. Our volunteer board holds two meetings per month, and continues to meet with new members, answer questions, collect information and seek professional advice on development issues facing the membership. Board meetings are held on the first and third Wednesday of each month, starting at 7:00 PM, at the old Glenmont Elementary School. Please check the KVLA website for further updates and information.

UPDATE ON EAST HOLMES

As you are probably aware, Endeavor tendered a lease offer to the East Holmes Landowners Group, the Farmerstown Landowners Group and KVLA members who own mineral rights in Salt Creek, Paint, Berlin, Walnut Creek and/or Clark Townships (the "Affected KVLA Members"). The deadline to accept Endeavor's lease offer was extended to April 15, 2012.

Our legal counsel, Critchfield, Critchfield & Johnston, Ltd. ("CCJ"), is holding meetings each evening this week (the week of April 16th) and next week (the week of April 23, 2012) from 6:00 PM until 9:00 PM at the former Dutch Harvest Restaurant, 5324 County Road 201, Millersburg, Ohio 44654. ***If you are an Affected KVLA Member, and are not able to attend and sign your lease at the date and time indicated in the letter CCJ recently sent to you, please try to attend one of the signings next week. If you did not sign an Acceptance Agreement, there is no lease for you to sign, so there is no need to attend.***

ASK DOUG CORE

Recently KVLA added to our website www.kvla.org another source for obtaining information. KVLA members can now email Utica Shale-related questions to kvla.info@gmail.com and have Doug Core answer them. Doug, a local geologist, has shared his extensive knowledge on different aspects relating to the Utica Shale with our board and members on several occasions. Here are some of the questions and answers

posted on the website:

QUESTION: *The Ragersville/Troyer well may be the closest and most recent shale well. Now we hear it may need to be redrilled and/or refractured to become productive. Why? Is it a drilling issue, or finishing issue, or perhaps shale issue? All of the above? Some of above? Or perhaps another issue? Or production issue(s) not known?*

The Devon well near Ashland is too shallow at 3400 feet with too little gas pressure to make it productive? Is there a correlation between depth of well and gas pressure needed for production after fracturing?

Interesting this so-called glitch has not dampened the interest of oil/gas companies to lease acreage.

ANSWER: All information from individual wells is kept confidential for a period of time following the drilling. A lot of rumors have been spread, but actual information is hard to come by. I do not know what problem may have occurred on the Troyer well, but because of the highly technical nature of horizontal drilling, many things could have occurred, most of which are correctable, but at much higher costs.

As far as I know, the Ashland County well has not yet been fractured. It is my opinion that the shallow depth of this well could have an effect on its ability to return the frac water and, therefore, its productivity. This is just my opinion, and we will not know for sure until the well is completed and production reported.

During all oil and gas plays, many lease brokerage companies lease in areas surrounding what is currently being drilled. Their hopes are that the play will extend in that area and they can resell the leases at a profit. The only drilling company that I know of leasing in the Knox, Ashland, western Holmes and Western Coshocton County area is Devon. The majority of the other companies leasing in these areas are lease brokers.

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**QUESTION:** *I know fracking is a loaded term and you don't hear much about it being a positive method of extraction. Assuming there is a "safe" and "responsible" fracking method – please briefly describe what that is.*

*Also, what assurance is there from drilling companies that they will extract or "frack" responsibly? My concern is that health and environment issues will arise and neighbors or new owners, if I should sell, will hold me liable – and not to mention the ethical issues of putting people in harm's way.*

*I just can't believe big drilling or oil companies being concerned with anything but profit. Who is the watchdog here? And, if there is one, who is it and how effective can it be?*

**ANSWER:** Following is a link for some information concerning hydraulic fracturing from the Ohio Department of Mineral Resources Management. The method has been used for approximately 60 years and is very safe. A lot of misinformation is being circulated concerning fracturing. Many so called "environmentalists" would like to see the practice stopped at any cost, and are using scare tactics with no true, scientific evidence to back them up. No industrial process can be totally accident free due to the fact that humans are involved. However, any true problems associated with fracturing have been scientifically studied and dealt with in a responsible manner.

<http://ohiodnr.com/Portals/11/pdf/fracking-fact-sheet.pdf>

The Ohio Division of Mineral Resources Management is responsible for the oversight of the oil and gas business in Ohio. Wells are bonded and state inspectors are present for all critical portions of the drilling and completion operation. The Ohio Division of Mineral Resources Management is very good in their oversight of the industry and can stop a company from getting permits to drill wells if it violates the laws. Also, substantial fines can be levied, if needed.

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QUESTION: *There has been some talk of fracking in Canada using CO2 (and perhaps other gases) in place of water—or maybe to reduce the amount of water needed—in their gas and oil drilling. Is this accurate; and if so, is this technology practical in Ohio, and will it really reduce the amount of water that is removed from our lakes and streams and the amount of waste water that needs to be put into injection wells?*

ANSWER FROM DOUG: Hydraulic fracturing using gases has been used for fracturing shale for many years. In addition to carbon dioxide, nitrogen and propane have been and are continuing to be used. All of these work to some extent but do not appear to be as effective as the large water/sand jobs in the deeper shale formations. They are used primarily in areas where the shales are shallow and do not have the reservoir pressure to return the large volumes of

water. Although they do save water, additional problems are associated with them. Both nitrogen and carbon dioxide require the well to be flowed back until the amounts of each are very low. Gas utility companies will not allow gas to be produced into their line with more than a few percent of nitrogen or carbon dioxide. This allows quantities of the gases and methane to be produced into the atmosphere. Since the carbon dioxide and nitrogen are extracted from the air in the first place, there is no net increase in these gases. However, methane, which is a more troublesome greenhouse gas than carbon dioxide, is released until the gas can be produced. Propane does not have this problem since it can be blended with natural gas and immediately put into a pipeline. However, propane is very dangerous to pump, and therefore, very few companies are currently doing this.

***QUESTION:** Can you recommend a website that explains how horizontal drilling works? For example, I'd like to know how BP, or whatever company did the drilling, was able to guide their drill bit in the relief well in the Gulf of Mexico disaster. It amazes me that they were able to guide that thing right to the location of the crippled well.*

***ANSWER:** Following is a link from the North Dakota Division of Mineral Resources that is very good at explaining horizontal drilling.*

<https://www.dmr.nd.gov/ndgs/newsletter/NL0308/pdfs/Horizontal.pdf>

UPDATE ON CNX WELL IN RAGERSVILLE & DEVON'S BAILEY LAKES WELL

These two wells are the closest wells to KVLA acreage and their success will have an impact on the shale development in our area. It is reported that the Ragersville well has a temporary pump jack on it, and they are pumping oil out into tanks and hauling it away. It is claimed that the producer does not have the gas pressure it wants for some reason but the well is in production. The production from this well will not have to be reported until March 2013. Leasing activity around this particular well has increased dramatically in recent weeks.

David Eichleberger, landowner of the Devon well in Bailey Lakes, Ashland County, has reported that fracking began (4-16-12), and will continue for the next week to ten days. Heavy equipment has been moved in with very large water tanks. As with the Ragersville Well, production will not have to be reported until March of 2013. However, since this Utica well is more shallow than much of the KVLA acreage, its success will have a direct bearing on the viability of the shale development in our area.

RECENT ACTIVITY AFFECTING KVLA

In recent weeks, CCJ has received more than eight requests for KVLA maps from shale producers and brokers. CCJ is requiring anyone who wants KVLA maps to first sign a Non-Disclosure Agreement ("NDA"), which requires producers to keep our maps confidential. There are many interested producers currently evaluating KVLA's acreage.

Devon Energy ("Devon") has also been contacted by CCJ to see if they are interested in any portion of KVLA's acreage. Devon has recently purchased thousands of acres in our area from Chesapeake. Much of this acreage is HBP (held by production) acres, and some of it is in the storage field. Devon has been presented with a NDA to review our maps. The hope is that Devon will be interested in working with KVLA toward a definitive agreement for the development of the Utica Shale beneath our land.

KNOWLEDGE IS POWER

Recently a KVLA member with acreage in several townships was approached by a landman for a shale producer. The landman presented a lease containing a 12.5% net royalty and \$1,000 per acre signing bonus, and indicated that \$1,000 per acre is all the producer was willing to pay. He told the landowner that if he did not sign, the producer would simply move the drilling unit to the point where the landowner's

acreage would not be included. The landman said he would be back the next morning with the lease to sign. After this meeting, the landowner walked down to get his morning mail. In his mailbox was KVLA's March Monthly Newsletter that contained the information from the Endeavor offer in the East Holmes, along with updated information with regard to the Utica Shale leasing activity and developments in the area. To make a long story short, the next morning when the landman arrived, he was presented with our member's monthly letter. With the knowledge of our association's newsletter, the initial offer made a day earlier became obsolete and was withdrawn.

MONTHLY REMINDER

In closing, leasing activity in Holmes and Coshocton Counties continues to build. Each day the chances are greater that you will be approached individually by an oil and gas company about leasing your property. We have heard that companies may be trying to influence you to sign their leases by telling you that CCJ has already approved the lease and offer they are presenting. **These statements, if made, are not true.** CCJ will not approve any offer or lease without first obtaining KVLA Board approval and then communicating with the Association. When the time comes for you to sign a lease, CCJ will be present when you sign in order to answer any questions or concerns you may have.

Our primary advice to you is to be patient. Everyone has heard stories of incredible lease bonuses and royalty payments from the lease activity and early wells drilled to the east of Holmes and Coshocton Counties. These stories have made everyone anxious to get on board. Things here are continuing to progress and we want each of you to receive the best possible lease terms. There is strength in numbers, and it is important for the Association's members to stick together. The companies that may approach you are not interested in getting the best deal for you; they are interested in getting the best deal for themselves. Do not be misled. When in doubt, contact one of us or one of the CCJ attorneys, Dave Wigham or Garrett Roach.

Thank you for your continued participation in the Association.

If you have questions, please call:

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Sincerely,

Bob Hunter
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