

KVLA

**KILLBUCK VALLEY
LANDOWNERS ASSOCIATION**
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February 27, 2013

Dear Killbuck Valley Landowners Association Member:

INTRODUCTION

This monthly newsletter will update Association members on recent developments in the Utica Shale in Ohio and the efforts on behalf of the Association to market your acreage.

UPDATE ON KVLA MEMBERSHIP AND ACREAGE

The Association currently consists of about 626 members holding approximately 40,603 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 alone. Our volunteer board meets at least monthly, and continues to meet with members to answer questions, to collect information, to promote KVLA's acreage, and to seek professional advice on development issues facing the membership.

IMPORTANT UPDATE ON KVLA MEETINGS AND NEWSLETTERS

The KVLA Board has agreed to hold one meeting per month until further notice. Accordingly, Board meetings will be held on the first Wednesday of each month. Meetings will still start at 7:00 PM, and will be held at the old Glenmont Elementary School. If leasing activity increases, the Board will hold two meetings per month. Please check the KVLA website for further updates and information.

KVLA plans to continue issuing monthly newsletters because they are a great way to keep everyone updated, even during slow times. KVLA will email newsletters to those members who receive email and will mail hard copies to those who do not. Newsletters are also posted on the KVLA website. If you do not receive a newsletter, please contact a board member.

UPDATE ON MARKETING OF KVLA ACREAGE

Since July 2012, there has been little activity with regard to the marketing of KVLA's acreage. KVLA's legal counsel, Critchfield, Critchfield & Johnston ("CCJ") has received calls from Utica producers and brokers, but there have been no serious discussions. The KVLA Board

and CCJ will continue to market the group's acreage to interested producers. One of the Board's key concerns is to avoid dealing with middlemen who are only interested in attempting to re-sell (or flipping) the acreage before the payment obligation becomes due, for a profit. The Board strongly prefers to deal directly with the producer who will be developing the group's acreage.

OHIO'S PROPOSED REGULATORY CHANGES COULD IMPACT UTICA OPERATORS

A budget bill proposed by Governor Kasich known as HB59 has been introduced before the Ohio legislature and could change several aspects of Ohio's oil and gas law, as well as the duties of the Ohio Department of Natural Resources ("ODNR"), and increase Ohio's severance tax. Please note that this is only proposed legislation and must be approved by the state legislature before the beginning of the state's fiscal year on July 1.

Under HB59, Utica operators will be required to submit quarterly production statements to the ODNR (rather than annual production statements as reported in earlier editions of this newsletter), together with other information, such as the production of natural gas liquids ("NGLs"), the gravity of any crude oil and the BTUs of any natural gas. Operators are also assessed a \$25,000 per well impact fee with the fee to be distributed among local taxing authorities. It must be paid to the County Treasurer before drilling operations are commenced.

HB59 also tightens environmental restrictions on Utica operators. It will prohibit the dumping of brine, crude oil, natural gas or other waste fluids into the ground water, on land or into surface water, even if those substances were previously mechanically or chemically treated. HB59 also bans all brine from horizontal wells from being spread on roadways for deicing purposes. The Bill also requires that all pits and steel tanks for containing brine and other wastes be liquid tight and impoundments to have a synthetic liner.

Finally, HB 59 calls for a dramatic increase on severance tax on oil and gas produced from horizontal wells (or non-conventional wells). The current law imposes a severance tax equal to 10¢ per barrel of oil, 2.5¢ per MCF of gas and no severance tax on NGLs. The new proposal is as follows:

- Natural Gas: A 1% severance tax on all natural gas from horizontal wells for the first six quarters and thereafter a 4% severance tax (based on BTUs). There will be an elimination of all severance taxes on gas produced from conventional wells that produce less than 10 MCF per day. Conventional wells that produce more than 10 MCF per day would be taxed up to a cap of 3¢ per MCF.
- Oil and NGLs: A 1½% severance tax on crude oil and NGLs from horizontal wells for the first six quarters of production and then 4% in subsequent years. Ohio's severance tax on oil from convention wells would increase to 20¢ per barrel.

MONTHLY REMINDER

In closing, leasing activity in Holmes and Coshocton Counties has slowed. However, there is still a chance that an oil and gas company could approach you individually 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 the 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. 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. Do not be misled and do not sign anything without the assistance of counsel. 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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