

**STATE OF OHIO
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS RESOURCES MANAGEMENT**

In re the Matter of the Application of R.E. :
Gas Development, LLC for Unit Operation :
 : Application Date: November 10, 2014
 : Revised: August 28, 2015
Vaughn Northeast Unit :

**APPLICATION OF R.E. GAS DEVELOPMENT, LLC (“REX”)
FOR UNIT OPERATION**

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TABLE OF CONTENTS

APPLICATION

I. APPLICANT INFORMATION.....1

II. PROJECT DESCRIPTION.....2

III. TESTIMONY2

IV. THE CHIEF SHOULD GRANT THIS APPLICATION3

 A. Legal Standard3

 B. Rex’s Application Meets this Standard.....4

 i. *The Unitized Formation is Part of a Pool*4

 ii. *Unit Operations Are Reasonably Necessary to Increase Substantially the Ultimate Recovery of Oil and Gas*4

 iii. *The Value of Additional Recovery Exceeds Its Additional Costs*5

 iv. *The Unit Plan Meets the Requirements of Ohio Revised Code § 1509.28*.....5

V. HEARING.....5

VI. CONCLUSION.....6

ATTACHMENTS

Attachment 1 Unit Plan

Attachment 2 Prepared Direct Testimony of David Pratt (“Geologist”)

Attachment 3 Prepared Direct Testimony of Alex Azizi (“Reservoir Engineer”)

Attachment 4 Prepared Direct Testimony of Matthew Metheney (“Landman”)

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APPLICATION

Pursuant to Ohio Revised Code Section 1509.28, R.E. Gas Development, LLC (“Rex”) hereby respectfully requests the Chief of the Division of Oil and Gas Resources Management (“Division”) for an order authorizing Rex to operate the Unitized Formation and applicable land area in Carroll County, Ohio, (hereinafter, the “Vaughn Northeast Unit”) as a unit according to the Unit Plan attached hereto and as more fully described herein. Rex makes this request for, and unitization is necessary for, the purpose of substantially increasing the ultimate recovery of oil and natural gas, including related liquids, from the Unitized Formation, and to protect the correlative rights of unit owners, consistent with the public policy of Ohio to conserve and develop the state’s natural resources and prevent waste.

**I.
APPLICANT INFORMATION**

Rex is a corporation organized under the laws of the State of Delaware, with its principal office located at 366 Walker Drive, State College, Pennsylvania 16801. Rex is registered in good standing as an “owner” with the Division.

Rex designates to receive service, and respectfully requests that all orders, correspondence, pleadings and documents from the Division and other persons concerning this filing be served upon, the following:

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II. PROJECT DESCRIPTION

The Vaughn Northeast Unit is located in Carroll County, Ohio, and consists of seventy (70) separate tracts of land. See Exhibit A-1 and Exhibit A-2 to the Unit Operating Agreement (showing the plat and tract participations, respectively). The total land area in the Vaughn Northeast Unit is approximately 612 acres and, at the time of this Application, Rex and other working interest owners participating in this Application have the right to drill on and produce from approximately 553 acres of the proposed unit – i.e., approximately ninety percent (90%) of the unit area, well above the sixty-five percent (65%) threshold required by Ohio Revised Code § 1509.28. As more specifically described herein, Rex seeks authority to drill and complete one or more horizontal wells in the Unitized Formation, from fifty (50) feet above the top of the Utica formation to fifty (50) feet below the base of Point Pleasant formation, from two well pads the first located outside the unit to the southwest and the second located on the southeastern portion of the Vaughn Northeast Unit, to efficiently test, develop, operate and produce the Unitized Formation for oil, natural gas, and related liquids production.

Rex's plan for unit operations (the "Unit Plan") is attached to this Application as Attachment 1. Among other things, the Unit Plan allocates unit production and expenses based upon each tract's surface acreage participation in the unit; includes a carry provision for those unit participants unable to meet their financial obligations, and which determines reimbursement, in part, based upon the costs of and risks related to the project; and conforms to industry standards for the drilling and operating of horizontal wells.

III. TESTIMONY

The following pre-filed testimony has been attached to the Application supporting the creation of the Vaughn Northeast Unit: (i) testimony from a Geologist establishing that the Unitized Formation is part of a pool and supporting the Unit Plan's recommended allocation of unit production and expenses on a surface acreage basis;¹ (ii) testimony from a Reservoir Engineer establishing that unitization is reasonably necessary to increase substantially the recovery of oil and gas, and that the value of the estimated additional resource recovery from unit operations

¹ See Attachment 2.

exceeds its estimated additional costs;² and (iii) testimony from a Landman describing the project generally and the terms of the Unit Plan.³

IV.
THE CHIEF SHOULD GRANT THIS APPLICATION

A. Legal Standard

Ohio Revised Code § 1509.28 requires the Chief of the Division to issue an order providing for the unit operation of a pool – or a part thereof – if it is reasonably necessary to increase substantially the ultimate recovery of oil and gas, and the value of the estimated additional resource recovery from the unit’s operations exceeds its additional costs. See Ohio Rev. Code § 1509.28(A).

The Chief’s order must be on terms and conditions that are just and reasonable and prescribe a plan for unit operations that includes the following:

- (1) a description of the unit area;
- (2) a statement of the nature of the contemplated operations;
- (3) an allocation of production from the unit area not used in unit operations, or otherwise lost, to the separately owned tracts;
- (4) a provision addressing credits and charges to be made for the investment in wells, tanks, pumps, and other equipment contributed to unit operations by owners in the unit;
- (5) a provision addressing how unit operation expenses shall be determined and charged to the separately owned tracts in the unit, and how they will be paid;
- (6) a provision, if necessary, for carrying someone unable to meet their financial obligations in connection with the unit;
- (7) a provision for the supervision and conduct of unit operations in which each person has a vote with a value corresponding to the percentage of unit operations expenses chargeable against that person’s interest;
- (8) the time when operations shall commence and the manner in which, and circumstances under which, unit operations will terminate; and
- (9) such other provisions appropriate for engaging in unit operations and for the protection or adjustment of correlative rights.

See Ohio Rev. Code § 1509.28(A). The Chief’s order becomes effective once approved in writing by those owners who will be responsible for paying at least sixty-five percent of the costs of the unit’s operations and by royalty and unleased fee-owners of sixty-five percent of the unit’s acreage. Once effective, production that is “allocated to a separately owned tract shall be

² See Attachment 3.

³ See Attachment 4.

deemed, for all purposes, to have been actually produced from the tract, and all operations ***[conducted] upon any portion of the unit area shall be deemed for all purposes the conduct of such operations and production from any lease or contract for lands any portion of which is included in the unit area.” Ohio Rev. Code § 1509.28(B)(2).

B. Rex’s Application Meets this Standard

i. *The Unitized Formation is Part of a Pool*

The “Unitized Formation” consists of the subsurface portion of the Unit Area (i.e., the lands shown on Exhibit A-1 and identified in Exhibit A-2 to the Unit Operating Agreement) at an approximate depth of fifty (50) feet above the top of the Utica formation to fifty (50) feet below the base of the Point Pleasant formation, believed to be approximately 7,325’ to 7,620’ TVD (true vertical depth) within the Vaughn Northeast Unit. The evidence presented with this Application establishes that the Unitized Formation is part of a pool and, thus, an appropriate subject of unit operation under Ohio Rev. Code § 1509.28.⁴ Additionally, that evidence establishes that the Unitized Formation is likely to be reasonably uniformly distributed throughout the Unit Area and thus, it is reasonable for the Unit Plan to allocate unit production and expenses to separately owned tracts on a surface acreage basis.⁵

ii. *Unit Operations Are Reasonably Necessary to Increase Substantially the Ultimate Recovery of Oil and Gas*

The evidence presented in this Application establishes that unit operations are reasonably necessary to increase substantially the ultimate recovery of oil and gas from the lands making up the Vaughn Northeast Unit. The Unit Plan contemplates the potential drilling of as many as five (5) horizontal wells, with laterals in ranging in approximate length from 5,000 feet to 5,400 feet.⁶ Rex estimates that the ultimate recovery from this unit development, if all unit wells are drilled, could be as much as between 30 and 35 billion cubic feet equivalent (Bcfe) of natural gas from the Unitized Formation.⁷ Due to the location of the unleased tracts within the Unit Area, only three wells could be produced absent unit operations. The evidence will further show developing the Vaughn Northeast Unit absent unit operations will reduce ultimate recovery from the Unit Area to between 12 and 14 (Bcfe) of natural gas.⁸

⁴ A “pool” is defined under Ohio law as “an underground reservoir containing a common accumulation of oil or gas, or both, but does not include a gas storage reservoir.” Ohio Rev. Code § 1509.01(E). See also Attachment 2.

⁵ *Id.*

⁶ See Attachment 3.

⁷ See Attachment 3. We emphasize that these are only estimates, and like the rest of the estimates set forth in this Application, they should be treated as simply estimates based upon the best information available at the time.

⁸ *Id.*

iii. *The Value of Additional Recovery Exceeds Its Additional Costs*

The evidence shows that the estimated recovery from unit operations has a net present value between \$1,000,000 and \$5,000,000.⁹ Absent unit operations, the estimated recovery has a net present value between negative \$1,100,000 and \$500,000.¹⁰ Moreover, see Attachment 3 – Exhibit AA-2, showing for each proposed well the estimated value of the well’s production and the estimated drilling and operating costs (incorporated here as if fully rewritten herein). The evidence accordingly establishes that the value of the estimated additional recovery exceeds the estimated additional costs incident to conducting unit operations.

iv. *The Unit Plan Meets the Requirements of Ohio Revised Code § 1509.28*

The Unit Plan proposed by Rex meets the requirements set forth in Ohio Revised Code § 1509.28. The unit area is described in the Unit Plan at Article 1, as well as on Exhibits A-1 and A-2 to the Unit Operating Agreement. The nature of the contemplated unit operations can be found generally in the Unit Plan at Article 3, with greater specificity throughout, including the Unit Operating Agreement. Unit production and unit expenses are allocated on a surface acreage basis as set forth in the Unit Plan at Articles 3 through 5 (generally), except where otherwise allocated by the Unit Operating Agreement. Payment of unit expenses is addressed generally in Article 3 of the Unit Plan. The Unit Plan provides for payment of costs by other working interest owners in the event a participant is unable to meet its financial obligations related to the unit - see, e.g., Article VI of the Unit Operating Agreement. Voting provisions related to the supervision and conduct of unit operations are set forth in Article 14 of the Unit Plan, with each person having a vote that has a value corresponding to the percentage of unit expenses chargeable against that person’s interest. And the commencement and termination of operations are addressed in Articles 11 and 12 of the Unit Plan.¹¹

V.
HEARING

Ohio Revised Code § 1509.28 requires the Chief to hold a hearing to consider this Application, when requested by sixty-five percent (65%) of the owners of the land area underlying the proposed unit. Ohio Rev. Code § 1509.28(A). That threshold level is met here. See Attachment

⁹ See Attachment 3. We emphasize that these are only estimates, and like the rest of the estimates set forth in this Application, they should be treated as simply estimates based upon the best information available at the time.

¹⁰ See Attachment 3 – Exhibit AA-2.

¹¹ See Attachment 4 generally.

4 – Exhibit MM-1. Accordingly, Rex respectfully requests that the Division schedule a hearing at an available hearing room located at the Division’s Columbus complex on or before March 11, 2015 to consider the Application filed herein.

VI.
CONCLUSION

Ohio Revised Code § 1509.28 requires the Chief of the Division to issue an order for the unit operation of a pool or a part thereof if it is reasonably necessary to increase substantially the recovery of oil and gas, and the value of the estimated additional recovery from the unit’s operations exceeds its estimated additional costs. Rex respectfully submits that the Application meets this standard, and that the terms and conditions of the proposed Unit Plan are just and reasonable and satisfy the requirements of Ohio Revised Code § 1509.28(B). Rex therefore asks the Chief to issue an order authorizing Rex to operate the Vaughn Northeast Unit according to the Unit Plan attached hereto.

Respectfully submitted,

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