

Marcellus is Booming But... The Game Commission is Selling You Out

By

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Latest Government Report from EIA

The AP reports in the Wall Street Journal that “Marcellus production has now reached 12 billion cubic feet a day, the Energy Information Administration report found. That’s the energy equivalent of about 2 million barrels of oil a day, and more than six times the 2009 production rate.” Terry Engelder did not predict Marcellus production at 12 BCF/day until 2015. The 4000 Marcellus wells have higher production per well than other regions in the USA.

<http://online.wsj.com/article/AP2e119ea41fcd43248a082bc6e6ad4e24.html>

<http://www.eia.gov/analysis/studies/usshalegas/>

Representative Matt Baker (Bradford/Tioga) Report

Matt Baker summarized *The Economic Impact of Marcellus Shale in Bradford and Tioga Counties, Pennsylvania*

- UGI reports that 2012 production for Bradford and Tioga Counties is enough to serve all of their residential customers for 16+ years.
- Marcellus is now the largest gas field in the USA.
- Chesapeake in the Bradford County region is now producing 2 billion cubic feet per day and is supplying the annual gas heat for 22,220 homes each day.
- Tioga and Bradford County supplied 11% of all the residential gas needs in the USA in 2012
- Total lifetime royalty for Bradford and Tioga is \$7.6 billion

<http://www.repbaker.com/ShalePresentation.aspx> View Representative Baker’s testimony to the Congressional Natural Gas Caucus

2010 Legislative Budget and Finance Committee Resource Audit of the PGC

**Examination of Current and Future
Costs and Revenues From
Forest Products and Oil,
Gas, and Mineral Extraction on
Pennsylvania Game Commission Lands**

Penn State (Terry Engelder) said... *Industry projects that the two sweet spots of the Marcellus occupy 15 million acres of the 34 million acre fairway. The sweet spots are areas of current production including clusters of counties in southwestern (i.e., Fayette, Green, and Washington) and northeastern (i.e., Bradford, Lycoming, Susquehanna, and Tioga) Pennsylvania.*

PGC SGL #12 and #36, containing a combined 43,466 acres, appear to represent the most valuable PGC property. Should these two parcels lease at the level of recent transactions, the signing bonus would be over \$249 million. Assuming a royalty rate of 20%, these lands could eventually net the PGC \$1.07 billion above and beyond the signing bonus (given \$4/1000 cfe gas).

SGL #13 and SGL #57 consist of a combined 95,021 acres in parts of Luzerne, Sullivan, and Wyoming Counties. This is by far the largest nearly contiguous acreage in the PGC portfolio and much, if not all of it, is prospective for Marcellus gas. It is reasonable to suggest that SGL #13 and #57, which is double the size of SGL #12 and #36, may well realize twice the revenue as the former. However, the market for natural gas shows extreme price volatility. This makes predicting the short-run revenues from Marcellus Shale very difficult.

Game Commission is Now Leasing The Sweet Spots

\$249 million divided by 43,466 acres is \$5,728.61 per acre. Your Game Commission has now leased sizeable acreage in this Marcellus sweet spot in Bradford County and fixed the bid at only \$2,000 per acre and asked for a royalty bid.

In June 2012 the Pennsylvania Game Commission began leasing in the northeast sweet spot on game lands #36 but they didn't come close to the appraised value set by Penn State. They did not even bid these signing bonuses. Read how Commonwealth hunters were cheated out of \$25 million dollars in gas revenue. (Read Commissioners' Board Meeting Reports & Minutes)

<http://www.portal.state.pa.us/portal/server.pt?open=514&objID=568720&mode=2>

Game Lands Leased	Acres	Fixed By Game Commission	Resource Audit Appraisal of SGL 36
Tract 36 A-12	3,710 acres	\$2,000	\$5728/acre
Tract 36B-12	3,178 acres	\$2,000	\$5728/acre
	6,888 acres		

Hunters lost \$3,728 per acre X 6,888 acres = \$25,678,464 and your Game Commissioners approved these deals.

PA Game Commission Agenda and Minutes June 2012

B. Restricted Surface Use Oil and Gas Cooperative Agreement Offering, Tract 36A-12, State Game Land No. 36, Bradford County

Chesapeake Appalachia, L.L.C. of Oklahoma City, OK requested the Commission offer its oil and gas ownership under a portion of State Game Land No. 36. The proposed tract, containing a total of 3,710.33 acres, is located in Albany and Monroe Townships, Bradford County (Exhibit OGM-2).

The terms of the agreement are a paid up, 5 year, restricted surface use oil and gas agreement, a \$2,000 per acre bonus payment and a 20% royalty. Chesapeake Appalachia, L.L.C. has a strong lease position surrounding this portion of State Game Land No. 36 and has initiated well drilling and development programs on adjacent private lands. Chesapeake Appalachia, L.L.C. has the ability to unitize the Commission's oil and gas reserve by horizontal drilling with no disturbance to the State Game Land's surface. The staff has negotiated with Chesapeake Appalachia, L.L.C. in an effort to safeguard the prudent development of the Commission's oil and gas reserve and simultaneously protect the wildlife resources and recreational use of State Game Land No. 36.

The bonus payment of \$7,420,660 shall be deposited into the Game Fund or an interest bearing escrow account for the future purchase of wildlife habitats, lands, or other uses incidental to hunting, furtaking and wildlife resource management. Future rentals and royalties shall be deposited into the Game Fund. Oil and gas development will be regulated by the Commonwealth's oil and gas regulations and the Commission's standard Restricted Surface Use Oil and Gas Development Agreement.

CHAIR: Thank you. Any other discussion? Hearing none, all those in favor signify by saying aye.

ALL RESPOND AYE

Mr. President, the motion passes unanimously.

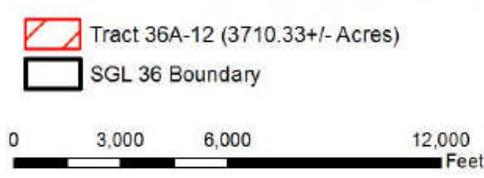
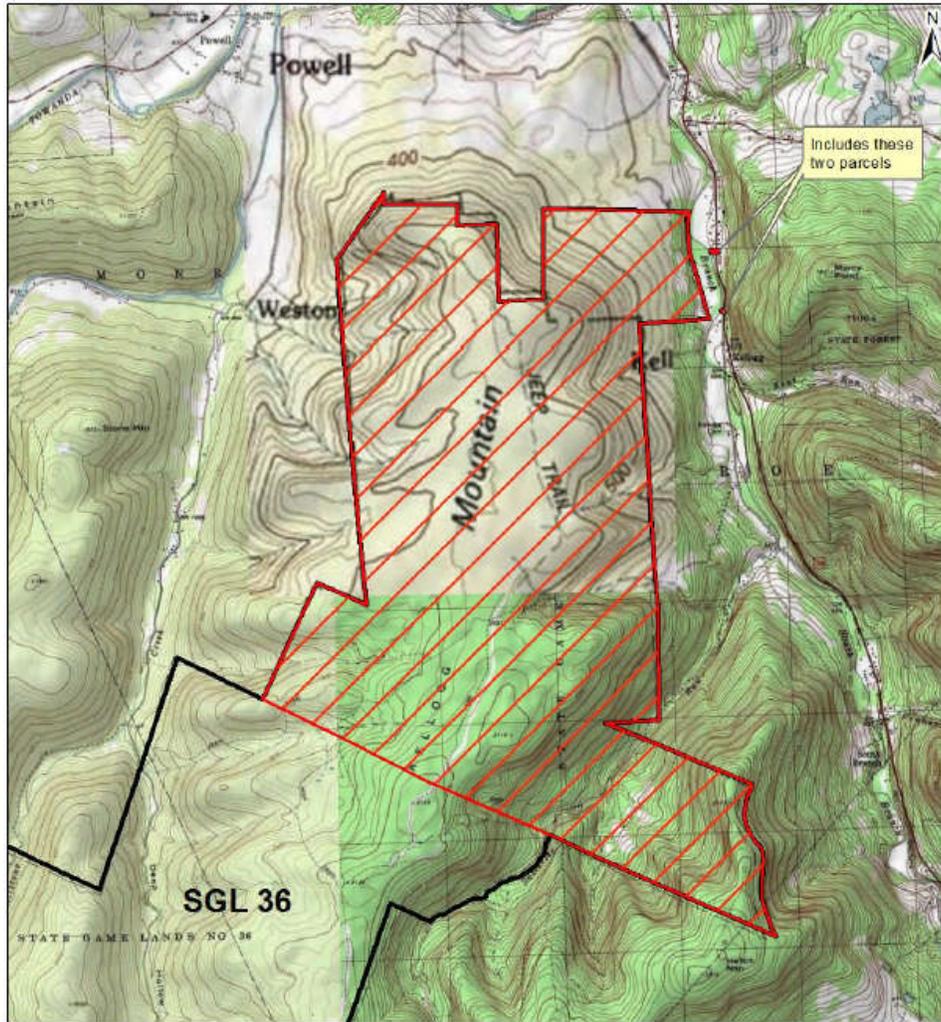


EXHIBIT OGM-2
 State Game Land No. 36
Restricted Surface/Non-Surface Use
Oil & Gas Production Agreement
CHESAPEAKE APPALACHIA LLC
Tract 36A-12
3,710.33 +/- Acres
 Albany & Monroe Townships, Bradford County

C. Restricted Surface Use Oil and Gas Cooperative Agreement Offering, Tract 36B-12, State Game Land No. 36, Bradford County

The Commission offered its oil and gas ownership under a portion of State Game Land No. 36 in Monroe and Overton Townships, Bradford County, for oil and gas development by a competitive royalty bid. Tract 36B-12 (Exhibit OGM-3), containing approximately 3,177.7 +/- acres, was announced for competitive royalty bid in May 2012, with a one-time bonus/rental payment of \$2,000 per acre for a 5 year paid up primary term, and a minimum bid of 20% royalty. Additionally, the bid provides the Commission a well pad location fee of \$250,000 per well pad if well pads are necessary on the State Game Land's surface. The agreement restricts surface use to a 260 acre area and a limit of two well pads for development (Exhibit OGM-3). The agreement will include a free gas provision for the Commission to use free of charge up to 350,000 cubic feet of gas annually or an annual payment for non-use of the free gas.

Oil and gas development will be regulated by the Commonwealth's oil and gas as regulations and the Commission's standard restricted surface use oil and gas development cooperative agreement to include a \$50,000 performance bond. The agreement will include the Commission's standard wildlife and environmental protection measures. The bonus payment of \$6,355,400 shall be deposited into the Game Fund or an interest bearing escrow account for the future purchase of wildlife habitats, lands, or other uses incidental to hunting, furtaking and wildlife resource management.

Bids for this tract were opened on May 30, 2012, with Chesapeake Appalachia, L.L.C. of Oklahoma City, OK, submitting the highest royalty bid of 25.5% for each thousand cubic feet of gas (Mcf) produced and sold for the premises. The results of the royalty bid are listed below:

BIDDER	BID ROYALTY
Chesapeake Appalachia, L.L.C.	25.5%
Anadarko E&P Company LP	25.2%

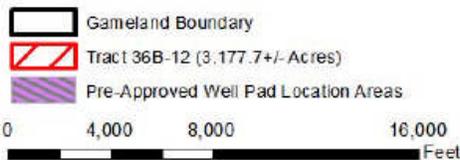
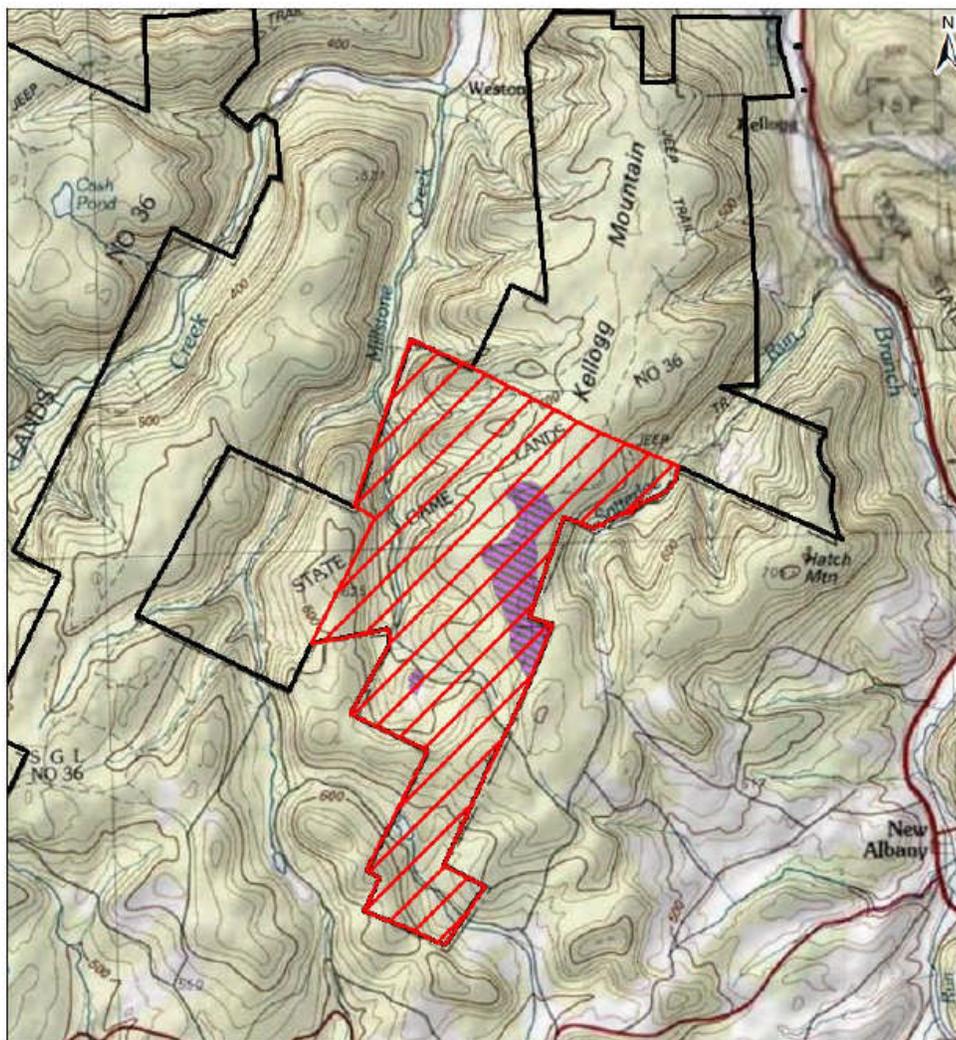


Exhibit OGM-3
 State Game Land No. 36
Restricted Surface Use Oil & Gas
Production Agreement
Tract 36B-12
3,177.7 +/- Acres
 Monroe & Overton Townships, Bradford County, PA