

**TESTIMONY OF WENDY STRAATMAN, PRESIDENT, EXCO-NORTH COAST ENERGY**

**SENATE POLICY COMMITTEE HEARING REGARDING MARCELLUS SHALE**  
**NOVEMBER 18, 2008**

Good afternoon, Chairman Corman and Chairwoman White, and members of the Policy Committee. My name is Wendy Straatman, President of Exco-North Coast Energy.

I appreciate the opportunity to speak with you today and to offer some thoughts about the development of the Marcellus Shale natural gas resource within Pennsylvania.

Exco-North Coast currently employs more than 100 within the Commonwealth that are assigned to various offices in the Pittsburgh region, Indiana County and in Northeast Pennsylvania.

Exco-North Coast has been a producer in Pennsylvania for several years. My company began ramping up its Pennsylvania operations earlier this year, during which most of our focus has been on land lease transactions. To date, we have invested significant sums toward that end, essentially providing us the right to drill on and under someone's property.

In total, during this calendar year, I believe that Marcellus producers, including Exco, have invested significantly more than \$2 billion in land leases alone. These leases and bonus payments have provided a direct and immediate financial benefit to your constituent landowners, as well as public landowners, such as the Department of Conservation & Natural Resources and the Pennsylvania Game Commission, with which we have a substantial leasehold.

Please understand that these land leases represent the "tip of the iceberg" in terms of what we as an industry are poised to invest in Pennsylvania ... all during a national recession in which few other industries are making any meaningful investments.

Exco-North Coast also intended to transfer a significant number of additional employees into Pennsylvania, but as a result of the uncertain regulatory and legislative environment and, perhaps most importantly, permitting delays – unlike anything we have seen in any other state in which we operate – we have been forced to put these investments on hold. Similarly, one of our contractors had similar plans to move its rig construction facilities and related operations into Pennsylvania, but that investment, too, is on hold for the same reasons.

We are certainly not alone in expressing our concerns that Pennsylvania is losing significant investments to competing states, some of which may never be recovered.

I was born and raised in Western Pennsylvania, and graduated from IUP before pursuing my professional aspirations as a geologist in other states where natural gas production activity was more prevalent. As a result, I have great hopes for what the Marcellus Shale play might still hold for Pennsylvania. Unfortunately, my experience to date does not lead me to be very optimistic.

I do want to applaud Acting Secretary Hanger and the Governor's Office for committing a great deal of staff time and resources to working with the industry to improve the permitting process.

I have personally attended several industry meetings with the Administration. Everyone appears to state the same goal – to maximize the economic development benefits associated with the Marcellus Shale play without sacrificing legitimate environmental resources.

However, with very few exceptions, Marcellus Shale permits simply are not being issued with any consistency or efficiency in Pennsylvania. This remains a significant, if not the most troubling, ongoing concern for our industry. Indeed, it seems as if every time we make headway on one issue, we lose ground on others.

Also, as a result of the continued permitting uncertainty, my company moved one of our drilling rigs out of the Commonwealth and into West Virginia, where horizontal drilling activity is ramping up quickly because permits are flowing far more expeditiously. Marcellus Shale drilling rigs, which we contract from third parties, cost my company about \$9 million annually to operate and, as a result, we must direct our capital where it can be utilized.

At this point, we simply do not know what the future holds for Pennsylvania. What we do know is that neighbouring states and competing shale plays throughout the country are benefiting today at Pennsylvania's expense.

With respect to the broader policy climate, we are concerned that the media hype surrounding the Marcellus Shale, including significant media and community misunderstanding of a variety of core environmental issues, creates the potential for local and state policy makers to pursue solutions that may end up creating more problems than they are purported to solve.

Later today, you will likely hear from local government trade associations promoting legislation that will authorize local property taxes to apply to natural gas. They will point out that the development of the Marcellus Shale will increase certain local government costs, especially those relating to road and water infrastructure. No one disputes this point, but, of course, it begs the question – what, if anything, must be done about it in terms of policy changes and, if anything, when?

Local governments currently have the ability to require Marcellus producers to pay for any damages caused by Marcellus activity, and to post bonds to guarantee payment. They may also impose impact fees for specific transportation related improvements. This is not to suggest that, over time, there may not be some legislative actions necessary to address specific statutory shortfalls, and we as an industry welcome the opportunity to address these future issues with you.

There has been little, if any, evidence that the Marcellus producers have been anything other than good corporate citizens. For instance, last month, Exco-North Coast donated \$200,000 to a small township in Indiana County to improve a locally owned road that we would use during the drilling process. We understand, and we are not alone, that good relationships with our local communities is also good for business. We must and we will continue to operate with that mindset.

We are also following a host of potential legislative proposals closely because of the potential impact on our current and future investments.

For instance, there is a great deal of speculation that the Governor may propose and the legislature may enact a severance tax in Pennsylvania, although a severance tax is as meaningless as a landowner royalty if producers cannot obtain drilling permits. The Fish & Boat Commission recently indicated a desire to charge natural gas producers for water withdrawals and to pursue other restrictive legislation that would further impede our ability to make investments in the Commonwealth. Legislation has been introduced in the House purporting to be in the interest of "surface owners" that would, essentially, rewrite existing land leases and significantly delay Marcellus development, if enacted.

And, most recently, the Department of Environmental Protection proposed to increase its well permitting fees from \$100 to approximately \$3000. On this last point – the fee increase – while I cannot speak for

my other Marcellus producer colleagues, Exco-North Coast might be able to support such a fee increase provided that we had some guarantee that permits would be processed within a reasonable period, that is, within a timeframe that is consistent with what we see in other state jurisdictions.

As you can see, there are a number of troubling developments that could severely limit Pennsylvania's ability to share in the benefits that other state jurisdictions have and continue to reap from natural gas development, both from an economic development and a state revenue perspective.

I urge this Committee, your colleagues in the Pennsylvania Senate, and in the General Assembly, to proceed cautiously as you evaluate policy issues affecting our industry during this early stage of the Marcellus Shale play, and carefully weigh the impact those decisions may have on industry investment in the Commonwealth.

Thank you for this opportunity to be here today. I look forward to working with you and your colleagues within the General Assembly, and within the Rendell Administration, to maximize this tremendous economic development opportunity.