



Testimony of

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[www.chiefog.com](http://www.chiefog.com)

Thank you Chairman Pippy, Senator Yaw and other members of the Committee for the opportunity to speak on some important issues concerning the Marcellus Shale development.

Chief Oil & Gas is one of the few privately held companies operating in the Marcellus Shale. We are a Dallas, Texas based company with operations in Texas, Oklahoma and Utah as well as Pennsylvania and West Virginia. We drilled our first Marcellus well in 2007, have more than 500,000 acres leased for exploration, 3 drilling rigs running (two in the northeast area) and have drilled 25 Marcellus Shale wells - most of them horizontal wells. Chief opened a regional office in Wexford, Pa to oversee our Marcellus operations, and have opened field offices here in Williamsport as well as Uniontown. Currently, we have more than 50 employees working to develop the Marcellus and several hundred more if you include all the subcontractors and consultants.

I have worked with Chief since the early days of shale exploration which began in the Barnett Shale in Texas. As one of the early pioneers drilling in shale, Chief was one of only a few companies that worked with the local and state governments, regulatory agencies and community leaders in Texas to develop the framework for operating as the Barnett Shale unfolded more than a decade ago. We understand the early issues that come with the discovery of a new field and are committed to working with the Commonwealth, the local authorities and all the regulatory agencies here to develop a working environment in Pennsylvania that will allow the development of this tremendous natural gas resource. Unlike the early days of the Barnett when shale development was still somewhat unproven, we are very fortunate in Pennsylvania to have several energy companies looking at the Marcellus for development and collectively the companies have joined together to form the Marcellus Shale Committee. We have been working for the last few months with the DEP on a clear and predictable permitting process and to provide industry education to all residents of Pennsylvania.

When Chief began drilling in Pennsylvania, we encountered many expected issues that we knew we could manage through our educational outreach program. There are probably very few people in this room that have not been to one of our public meetings or field tours. Chief is a very transparent company – we want landowners and local officials to feel comfortable having us as a neighbor working in the community. We want you to understand who we are and how we do business.

As with any new development, the unexpected can occur as well and I want to talk about two issues specifically – local roads and minimum royalty.

## **Local Roads**

The drilling and fracture stimulation process of well development involves trucking heavy equipment and water to and from the well location. As we have come to find, many of the local roads and bridges were not designed to handle the heavy loads needed to move the necessary equipment. We have made adjustments to the loads and even worked to design a drilling rig that could more easily maneuver the township roads and local terrain, but there will still be repairs that need to be made.

Chief, along with the rest of the industry, is committed to making the needed repairs to the roads damaged by our operations as evidenced by the miles of roads that have already been repaired or replaced and the millions of dollars the industry has already spent on road repair.

## **POSITION STATEMENT ON ROAD BONDING**

**Oil & Gas developers currently pay local road bonds and develop road use agreements for use and repair of the roads used during the extraction process. The current road bonding requirement is sufficient to maintaining Twp and County roads damaged by oil & gas operations.**

### **Minimum Royalty**

Pennsylvania has a Minimum Royalty Act that was established in 1979 – 58 P.S. § 33. It states “A lease or other such agreement conveying the right to remove or recover oil, natural gas or any other designation from lessor to lessee shall not be valid if such lease does not guarantee the lessor at least one-eighth royalty of all oil, natural gas or gas of other designations removed or recovered from the subject real property.”

Numerous lawsuits have now been filed by lessors claiming that their leases violate the Minimum Royalty Act, thereby rendering these leases void. There is no doubt the initial lawsuits were filed during the Marcellus Shale leasing frenzy because landowners just wanted out of the early lease contracts they signed because the going bonus rate when they signed was much lower than the going bonus rate at the time the lawsuit was filed. The Minimum Royalty Act is being used by the landowner plaintiffs as the conduit in an attempt to break the lease contract in hopes to re-lease at a higher bonus. There are at least seven energy companies defending multiple lawsuits covering thousands of acres of leases that might be prospective for gas production.

Few people fully understand the magnitude of the issue with this litigation and its potential effect on the Commonwealth. An adverse ruling in these cases could set the precedent for wiping out the majority of leases taken since 1979, devastating our industry. Thousands of existing producing oil and gas wells have been drilled that could be affected by an adverse ruling. This would be a

catastrophic situation for virtually all oil and gas operators and any others in the Commonwealth who rely on the industry for their livelihoods. Moreover, if lease validity is in question, operators will shut wells in such that existing production of natural gas could be significantly reduced, making it harder for homes, schools and businesses to obtain this important fuel.

Further, the challenge to the validity of leases from these lawsuits makes it difficult for energy companies to obtain new credit or credit extensions using leasehold or gas reserves as collateral. You have heard the industry say many times that this is a critical time for the development of the Marcellus Shale. Our industry needs capital to advance this field and the litigation can put a stranglehold on obtaining new capital.

Also, to further hinder Marcellus Shale development, the leases involved in the lawsuits effectively prevent future drilling since a company cannot risk drilling on such leases until the litigation is resolved. There are significant costs involved to planning and adjusting development plans to avoid the problem lease areas. Even landowners that are not a part of the lawsuit may be affected if they are located in an area with leases involved in a legal dispute.

#### **POSITION STATEMENT ON MINIMUM ROYALTY**

**The oil and gas operators defending lawsuits have been consistent in their position that their leases do not violate the statute. Nevertheless, disagreements persist and litigation continues. We need legislative action that is effective to resolve the current disagreement and cut off existing and future litigation over the minimum royalty statute. The legislation should confirm that lease and well owners holding leases that provide for a royalty fraction of 1/8 do not violate the minimum royalty statute. In addition, on public policy grounds, any legislative action that is taken should also provide for reformation as a remedy instead of voiding any lease that is held to be in violation of the statute. This legislation should be retroactive to reach back to 1979.**

To close, Chief, along with the many companies that have come to Pennsylvania to explore and develop the Marcellus Shale, are committed to be here and excited to be here. We know this is a tremendous opportunity for the Commonwealth and we know that we can develop this new gas field in a responsible and environmentally friendly manner that will benefit everyone.