

Commonwealth of Pennsylvania
Department of Conservation and Natural Resources
Bureau of Forestry

Oil & Gas Position Statement
April 1, 2008

Preamble

Natural gas is one of the cleanest burning fossil fuels available. Since 2002 the demand for natural gas in Pennsylvania has increased dramatically and prices have increased by more than 400 percent. As a consequence, the demand for additional gas drilling on the State Forest has risen drastically during that period. The entire State Forest has been nominated for drilling by two companies and numerous areas have been nominated by as many as eight companies.

DCNR has always strived to carry out oil and gas development in an environmentally responsible manner. Most of the impact from gas drilling involves fragmentation of surface vegetation caused by the construction of roads and well pads. "Shallow" gas development requires a proportionally greater number of wells at closer spacing than does "medium" or "deep" development, which allows for fewer, more widely spaced wells. In 2003, DCNR proposed to eliminate new shallow gas leasing on State Forest lands and focus its attention solely on deep gas, which has less surface impact. This decision was met with a great deal of resistance by some members of the General Assembly as well as other interests concerned with rising energy prices.

As a result of the heightened interest and public debate about the proposed changes, the General Assembly directed the Joint Conservation Committee to study DCNR's oil and gas leasing program. DCNR also established the Energy Sub-Committee within the Ecosystem Management Advisory Committee (EMAC) to consider how DCNR could effectively and responsibly incorporate allowances for shallow gas drilling while maintaining the ecological integrity and sustainability of the state forest system.

Over the last five years, representatives of DCNR met with legislators, industry representatives, environmental groups, academia, and users of the State Forests with the intent of developing an oil and natural gas policy for the State Forest that satisfies the needs of all interests and is responsive to the Commonwealth's energy concerns. Following these meetings, negotiations, and the Joint Conservation Committee report issued in January 2006, DCNR proposed to revise its policy and lease to allow for limited shallow gas development on a case-by-case basis. This proposal was aired in a statewide public meeting process as part of the 2007 State Forest Resource Management Plan update.

Public comments received during the 2007 State Forest Resource Management Plan process varied depending on the interest of the individual or organization. Generally, those with a primarily environmental interest opposed the proposed revision, and those with pro-industry interests supported the revision. In between these two positions, viewpoints varied considerably. The Conservation and Natural Resources Advisory Council (CNRAC) recommended that the

Bureau of Forestry allow new shallow gas well leasing on State forest land because it believes that the environmental protection measures incorporated into the newly revised lease allow for sound forest management, while providing for new, economically viable opportunities for the oil and gas industry.

As a result, the new proposed policy of DCNR was developed to focus primarily on deep and medium gas development in future lease sales. However, it was acknowledged that limited shallow gas activity may be allowed, if reservoirs are encountered during drilling for deeper gas fields, to compensate for the considerable investment involved. Consideration for shallow gas drilling will be given on a case-by-case basis. Under this policy, DCNR retains the discretion to determine which areas will be made available for development and to restrict shallow development to only those areas where appropriate. DCNR believes this is reasonable and environmentally sensitive.

This position statement on oil and gas development on State Forest lands was developed considering DCNR's legal mandates, historical oil and gas activity, and public discussion that has occurred over the past several years. DCNR's position on the utilization of deep gas has not changed.

Policy Statement

DCNR supports the continued economic development of oil and gas resources beneath State Forest lands in a manner that minimizes potential negative impacts to other forest resources and values. The department favors the development of deeper oil and gas reservoirs due to the increased production potential, wider well site spacing, and reduced surface impact that can be achieved. The likely proliferation of well sites, rights-of-way, and roads associated with shallow gas development is less compatible with other forest values across much of the State Forest. DCNR will consider leasing for shallow gas if it is found during the development of deeper gas fields, or on a limited, case-by-case basis. DCNR will continue to honor existing leases and will continue to provide access to areas where it does not own the subsurface rights. DCNR will seek to purchase outstanding oil and gas rights when opportunities exist.

Background

Oil and Gas and State Forest Management

The utilization of Commonwealth-owned oil and natural gas resources beneath State Forest lands has been a major program of the Bureau of Forestry for the past 60 years. The bureau issued its first oil and gas lease in 1947 and since then more than 1,300 wells have been drilled, resulting in approximately \$150 million in revenues to DCNR. Revenues from oil and gas leases during 2007 were approximately \$4.3 million. Oil and gas utilization is a part of the bureau's history and will continue to be a part of its future in helping to provide both clean energy and economic returns that are invested back into conservation initiatives.

As stewards of Pennsylvania's State Forest system, the Bureau of Forestry's mission is to ensure the long-term health, viability and productivity of the Commonwealth's forests and to conserve native wild plants. DCNR has been recognized for its commitment to sustainable forest management as one of the largest landowners in the U.S. to be certified as "well-managed" according to the principles of the Forest Stewardship Council (FSC). The State Forests first became certified by this independent, third-party system in 1998. Annual audits monitor compliance with the standard.

Part of the Bureau of Forestry's mission is to provide resources and values to society—one of which is the environmentally sound utilization of mineral resources. DCNR recognizes that many Pennsylvanians are deeply concerned about rising energy prices; reliable, domestic, clean energy sources; global climate change; and the range of concerns associated with energy independence. DCNR believes that through thoughtful and careful utilization of the Commonwealth's oil and gas reserves it can help to address these concerns while continuing to manage the forest sustainably according to FSC principles.

DCNR Mandates

Section 302(a)(6) of the Conservation and Natural Resources Act (act of June 28, 1995, P.L. 89, No. 18) authorizes DCNR to make and execute contracts or leases on behalf of the Commonwealth of Pennsylvania for the purpose of mining or removing any valuable minerals found within State forests. Section 302(b)(10) empowers the DCNR to lease State Forest lands for the underground storage of natural gas. Finally, Act 1955-256 (act of December 15, 1955, P.L. 865, No. 256), which establishes the "Oil and Gas Lease Fund," specifies the use of monies generated through rents and royalties from oil and gas leases of lands owned by the Commonwealth and now managed by the DCNR. The Oil and Gas Lease Fund is to be used at the discretion of the DCNR secretary for conservation, recreation, and flood control activities.

Ownership and Surface Use Agreements

The Commonwealth owns approximately 85 percent of State Forest lands fee simple, which means that it owns all surface and subsurface rights and, therefore, has control over any oil and gas development activity. On the remaining 15 percent, approximately 315,000 acres, the Commonwealth owns the surface, but does not own all the subsurface oil and gas rights, and thus, has a much more limited ability to control surface exploration or development activity. About half the oil and gas activity on State Forest lands each year occurs on land where the Commonwealth does not own the oil and gas rights. When such activity occurs, the bureau requests that oil and gas developers enter into an agreement with DCNR that includes measures to ensure protection of the surface of the State Forest. Additionally, DCNR will seek to purchase outstanding oil and gas rights when opportunities exist.

Existing Leases

As of January 2008, the Bureau of Forestry administers 99 active leases for either oil and natural gas development or natural gas storage, encompassing a total of 270,609 acres (13 percent) of State Forest land. Nine of the 99 leases comprising 69,983 acres are specifically for natural gas

storage. Under these leases, the operators generally have obligations to initiate oil or gas well drilling or storage activities within certain timeframes and the leases usually continue as long as the wells are producing certain quantities or storage activities continue. The rate at which operators continue to drill and develop the leased State Forest lands is dependent upon market conditions, with development activity increasing as oil and gas prices increase. In general, if an operator fails to proceed with oil and gas development consistent with the terms of the lease, the operator would relinquish all or a portion of the leased acreage and DCNR would have the ability to lease the acreage to a new operator, if it deems the action appropriate.

“Deep” and “Shallow” Gas

A key part of the oil and gas discussion is the distinction between “deep” and “shallow” gas. Deep and shallow are two terms used to generally describe the depth at which natural gas occurs beneath the earth’s surface. This is important to recognize because surface spacing of natural gas wells is directly correlated to the pressure of the gas found beneath the surface. Generally speaking, the deeper the targeted gas, the further apart wells can be spaced to efficiently develop the resource, thus resulting in reduced impact on the surface in the form of well sites, access roads, and pipelines. Shallow gas wells generally require 40-acre spacing upon development and medium to deep wells generally require 180- to 640-acre spacing upon development. Additionally, in general, deep wells typically produce natural gas at much higher volumes compared to shallow wells, and thus result in greater economic returns.

Oil and Gas Leasing Considerations

The ability of DCNR to properly assess and maintain full oversight of all oil and gas development activities on State Forest land is critical to the efficient and prudent utilization of the resource and its ability to manage the activities in the context of the broader forest ecosystem. As with its decision-making related to managing other forest resources, such as harvesting timber and providing recreational opportunities, the management of oil and gas development involves evaluating the impacts to the resource and balancing trade-offs. DCNR’s intent is to capitalize on the utilization of oil and gas reserves in a manner consistent with ecosystem management principles and FSC certification standards. Considerations include:

- Technical review of industry nominations to ensure that it makes sense geologically;
- Aesthetics and recreation impacts;
- Wild and Natural Areas and State Parks are excluded from surface development activities.
- Ecological impacts such as fragmentation, water quality, and plant and animal habitats of concern;
- Coordination with other State Forest operations such as timber harvesting;

- Comprehensive Environmental Review conducted as part of a lease sale planning process;
- Competitive, Internet-based lease sale process when practical to facilitate maximum bonus bid revenues; and
- Continued comprehensive and strong Oil and Gas Lease terms, which provide optimal control of activities.