

# National Association of Royalty Owners Pennsylvania Chapter



The only national organization representing, solely and without compromise, oil and gas royalty owner interests.

**Marcellus Shale Advisory Commission  
Local Impacts Committee Meeting  
May 11, 2011**

**Jackie Root**

- Owns 400 acres in Tioga County PA with husband Clifford
- Commercial dairy operation for 34 years
- Lessor with interest in 8 Marcellus wells
- President of R&R Energy Consulting LLC
- NARO PA Chapter President

## Surface/Mineral Owner Commercial Farm

Commercial Farm on 400 acres in Tioga County

- Fee simple ownership
- Commercial dairy operation
- Stewards of the land and water
- Open space is vital to preserve agriculture and maintain the rural character

## Marcellus Development

Lessor with interest in 8 Marcellus wells

- First lease offer in 2000 for TBR
- Signed with East Resources in 2005
- Negotiated lease with particular attention to surface protection
- Horizontal well drilled and completed in 2Q 2008
- 1<sup>st</sup> production in 1Q 2009
- Jackson Township operated under an AMI with SWEPI (Shell Western E&P Inc.) and Talisman Energy USA Inc

## R&R Energy Consulting LLC

President of R&R Energy Consulting LLC

- Advocate for landowners and/or mineral owners interested in development of their oil and gas interests
- Bridging the communication gap between mineral owners and industry
- Negotiated for 19 landowner groups since 2005

## NARO PA Chapter President

### NARO PA

- Organized July 2010
- 1<sup>st</sup> Annual State Convention in March brought together mineral owners, the OG industry, state regulators, scientists, attorneys and financial planners
- Legislative Committee identifies the potential impact of proposed legislation on PA mineral owners
- Provides education to members regarding mineral management for the present and future generations at both national and state levels

**Marcellus Shale Development  
Tioga County Observations  
2008 to 2011**

# Marcellus Shale Development Practices 2008

1. Well pads < 5 acres
2. Gravel base sufficient to support required heavy equipment
3. Open lined pits to contain drill cuttings
4. Temporary ponds to hold fresh water prior to frac'ing converted to flowback pond post frac'ing
6. Extreme sand and water truck traffic during hydraulic fracturing process
7. Dirt roads temporarily impassible during wet conditions
8. Excessive road dust affecting people, livestock and crops
9. Production equipment and brine tanks with no containment system
10. Lack of coordination with township officials and local emergency responders
11. Unitization and well spacing based on leasehold 1<sup>st</sup>, geology 2<sup>nd</sup>



# Marcellus Shale Development Practices 2011

1. Well pads >10 acres facilitating safer operations
2. Lined pads decreasing potential pollution from spills
3. Drill cuttings held in containers
4. Lined ponds used only for fresh water. Location of ponds near activity combined with water piping reduce truck traffic
6. Truck traffic somewhat less and more orderly
7. Road agreements with township officials have resulted in substantial upgrades prior to and during operations
8. Efforts to reduce road dust during operations
9. Brine tanks and production equipment installed with containment systems to reduce contamination of soil and water from spills
10. 911 site addressing and emergency responder training is helping protect industry workers as well as the surrounding communities
11. Unitization and well spacing based on leasehold 1<sup>st</sup>, geology 2<sup>nd</sup>

# Mineral Owner Concerns

## Environment

1. Water quality
2. Road maintenance
3. Dust control

## Property rights

1. Regulations that impede development
2. Subsurface rights as the dominant estate

## Emergency Response & Public Safety

1. Surface owner notification
2. Pipeline safety

## Taxation

1. Distribution of funds
2. Overall tax burden of mineral owners
3. Incentive to produce in PA

## Efficient Development

1. Oil and Gas Conservation Law
2. Marcellus Shale spacing and unitization

# Environment

## Water quality

1. Water well testing within 2500' of a gas well should be required
2. If a water source has been damaged, the remediation should include payment of monthly fees associated with maintenance

## Road Maintenance

1. Impact fees for road damages that would shift repairs back to local government or Penn DOT could slow development

## Dust Control

1. Dust from gravel (dirt) roads continues to be an issue. Just the increase in local traffic now creates dust levels that are a hazard to people, livestock and crops.

# Property Rights

## Regulations that impede development

1. States should continue to regulate the industry
2. Army Corp review of pipeline permits is resulting in lengthy delays between well completion and production

## Property Rights

1. The subsurface is the dominant estate
2. Best management practices should always be used in the extraction process however, the mineral owner's right to develop cannot be limited

# Emergency Response and Public Safety

## Notification

1. The surface owner should be officially notified in the event of a reportable incident
2. Good communication between operators and surface/mineral owners should be considered a Best Management Practice!

## Pipeline Safety

1. Oversight of gathering lines would benefit public safety long term
2. Methane detectors for all dwelling units and habitable buildings within the potential impact radius of a pipeline where odorization is not required.

# Taxation

## Distribution of funds

1. Supportive of the impact fee concept provided that a substantial portion remain in the impacted regions
2. Possible pollution that might occur downstream should be considered a violation of law and not an impact entitling non Marcellus portions of the state to a percentage

## Overall Tax Burden on Mineral Owners

1. Royalty income for most PA mineral owners will be a one time opportunity
2. In addition to Federal and State tax there are proposals for severance and property tax as well as an ongoing threat to the depletion allowance

## Incentive to Produce in PA

1. In order to grow its rig count, PA needs to maintain a business climate that will compete nationally

## Efficient Development

# Oil and Gas Conservation Law

It is hereby declared as an expression of policy to be in the public interest to foster, encourage, and promote the development, production, and utilization of the natural oil and gas resources in this Commonwealth, and especially those which may exist in the Lower Devonian Series and the Silurian and Cambro-Ordovician Geological Systems or from any formation below the Onondaga horizon, in such manner as will encourage discovery, exploration, and development without waste;...

## Efficient Development

...and to provide for the drilling, equipping, locating, spacing and operating of oil and gas wells so as to protect correlative rights and prevent waste of oil or gas or loss in the ultimate recovery thereof, and to regulate such operations so as to protect fully the rights of royalty owners and producers of oil and gas to the end that the people of the Commonwealth shall realize and enjoy the maximum benefit of these natural resources, it being recognized, however, that the uninterrupted exploration and development of Pennsylvania and Mississippian Systems and the Upper and Middle Devonian Geological Series, being sands and strata above the Onondaga Horizon, both of a primary and subsequent methods have been carried on exhaustively since the discovery of oil in the Drake Well in 1850 without regulatory restriction or control to such an extent that at the present stage of development it would be impractical and detrimental to the operation of such shallow horizons to impose regulations under this act,



## Efficient Development

...particularly in view of the facts that the production therefrom, whether of primary or secondary nature is carried on without appreciable waste, and that the methods of exploration, discovery, development and production above the Onondaga Horizon and in shallow horizons at a depth of less than three thousand eight hundred feet differ from methods of exploration discovery, development and production below the Onondaga Horizon or below three thousand eight hundred feet in cost, methods, operating problems, and other important characteristics.

# Efficient Development

## Oil and Gas Conservation Law

1. Application to the Marcellus Shale would serve to prevent waste
2. The conservation law as it exists will apply to the Utica Shale
3. The law is vague and does not go far enough to protect the correlative rights of mineral owners regardless of the formation to which it applies

## Marcellus Shale spacing and unitization

1. Well density is solely operator's discretion
2. Unit boundaries dictated by operator's leasehold and lease expiration dates
3. Geology is not a required consideration in spacing
4. Protection of correlative rights and waste prevention should be a goal in Marcellus development

## Conclusion

- The information presented is derived from direct experiences and is a mineral owner's perspective
- New laws and regulations need to consider the rights of mineral owners, key stakeholders in oil and gas development
- Pennsylvania Department of Environmental Protection is best equipped to regulate development in the Commonwealth
- It is important to recognize the oil and gas industry's progress in the formulating new and improved Best Management Practices to reduce the impacts of Marcellus development
- It is imperative that we manage the impacts but also promote development in a manner that will maximize the resource and prevent waste.
- Questions?



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