Tioga Landowners News

Hometown News for Landowners in Tioga County, NY
www.tiogagaslease.org

Third Edition Monday, June 15, 2009

Opening Remarks

There are so many topics to address that we could publish a book and not have covered all of the things of importance. Did you know that our group has grown to 870 families which own 66,000 acres in Tioga County? Did you know that we have 150 families which do not have an e-mail account and rely on information being mailed to them? This newsletter is one of the primary methods of communications with this group. We must limit our remarks to a newsletter of six pages. To that end, let us start with some recent history of leasing activities in other parts of the country. These are presented as a way to understand the evolution of leasing in other plays. They are excerpts of news articles with reference footnotes to define the source.

The Barnett Experience

With our country in a recession let's take a look at the economic benefits created by the natural gas industry in a developed region. The best example would be the Barnett Shale field in Texas. This field covers an area of 3 million acres and is principally in seven counties. This play has completed most of the exploration phase with more than 6,100 producing wells and over 1,100 well completions in the past 12 months. This play is much smaller than the Marcellus Shale field.

People from all walks of life are sharing in the gains, both directly and indirectly. Although virtually all business activity involves trade-offs, the downside elements of the Barnett Shale (such as noise, water use, and infrastructure needs) are being dealt with proactively to minimize the negative elements. Moreover, the **increased funds available to local governments are being put to good use through lasting investments and improvements**. In addition, many individuals have been able to enhance their financial situations significantly through royalty payments and lease bonuses.

Activity in the Barnett Shale and, hence, the economic benefits for the area are growing faster than expected. In fact, based on year-end 2007 levels, the area was experiencing **gains of $8.2 billion in annual output (8.1% of total output) and 83,823 jobs (8.9% of total jobs)**, up from $5.2 billion in annual output and 55,385 permanent jobs last year. **The performance represents a net gain of more than 50% in a single year.**

The state benefits through increased economic activity of an estimated **$10.1 billion in annual output and 99,726 jobs** (based on year-end 2007 levels of activity). This is a significant rise from the $6.4 billion in annual output and 65,953 jobs reported last year.

Taxing entities benefit from property taxes paid on oil and gas properties as well as tax receipts stemming from enhanced retail sales and real estate development due to the economic impact of the Barnett Shale. **Total State and local tax receipts generated by activity in the Barnett Shale and the resulting multiplier effect exceed $1 billion per year[1].** There is a very significant change coming to the Southern Tier which we need to work closely with our officials to manage.

> **The Geology of Tioga County**
> With
> Don Zaengle
>
> Tioga Central Middle School Auditorium
> Friday June 26, 2009 from 7:00 PM to 9:00 PM.
>
> *After several months of study Don has a major update on the natural gas opportunities in Tioga County. His investigation will provide insight into the evaluation process used by the energy companies. He has returned, by special request, with an update so don't miss this important meeting.*

[1] *The Perryman Group 2008*

Closer to Home

Two of the large players in Pennsylvania are Range Resources and Cabot Oil and Gas. Let's take a look at what they are reporting.

Range Resources Corp.

John Pinkerton, chairman and CEO of Range Resources Corp. of Fort Worth, said the company felt quite lonely when it made a pioneering foray into the sprawling Marcellus field in Pennsylvania in 2004. Five years later, Pinkerton can reel off a litany of reasons why he's ecstatic about Range's prospects in the Marcellus, which he calls "a huge sandbox" of 65 million acres that dwarfs the Barnett Shale expanse of 3 million acres. "We've invested almost a billion dollars in the Marcellus," Pinkerton said. "For a company our size, that's a heck of a lot of money."

Range, with 25-plus years of experience in older Appalachian fields, has about 1.4 million net acres under lease for Marcellus drilling, making it a premier player there. Range has acreage in southwest and northeast Pennsylvania, plus southern New York.

Pinkerton said Range, which has drilled successful vertical and horizontal wells in the Marcellus, hopes to roughly triple its production in the gas shale to 80 million to 100 million cubic feet a day by year's end. After making some initial mistakes, Range has "recorded terrific well results," with the last 10 horizontal wells brought online in 2008, making an average initial production of 7.3 million cubic feet per day, Pinkerton said.

A primary benefit of the Marcellus play is that "you're in the best spot on planet Earth to sell gas" in the heavily populated Northeast and can therefore draw premium prices, Pinkerton said. Marcellus leasing costs are low and Pennsylvania doesn't levy a severance tax on natural gas, he added[2].

Cabot Oil & Gas Corp.

Last year at this time Cabot's effort was in the very early stages of exploration with plans to drill 20 wells in Pennsylvania and 68 wells in West Virginia. The West Virginia results, although economic, did not compare to the robust performance of the 20 wells in Pennsylvania. Of these 20 wells, five were horizontals and 15 were verticals. First production occurred in July and at year-end 15 wells were producing, although only one horizontal. The exit rate of production from these wells at year-end was approaching 20 Mmcf per day.

The Marcellus acreage in Pennsylvania, which now totals over 160,000 gross acres, is focused over what is believed to be a sweet spot in the play. To effectively exploit this position, the Company will begin a two-phased approach to future drilling. The first phase, labeled core area development drilling, is already under way. To further the success, in 2009 Cabot plans to drill 60 wells in Susquehanna County, and at this time the effort is split equally at 30 verticals and 30 horizontals.

While the Company has had early success, this is still very much a work in progress as Cabot continues to use different technologies to achieve the best results. Larger casing, more and longer horizontals, and micro seismic application to evaluate fracturing technologies are just a few of the areas being evaluated to determine the most effective development course of action.

The Marcellus initiative in northeastern Pennsylvania is gaining momentum and starts 2009 producing nearly 20 Mmcf per day. This production is from 14 vertical wells and one horizontal well. Most recently, Cabot completed its first Marcellus horizontal well with a measured depth of 8,925' and a horizontal leg at 2000' using a six-stage frac. The result was a 24-hour average initial production rate of 6.4 Mmcf per day.

Cabot completed its second and third horizontal wells in the Marcellus play in eastern Pennsylvania. The Black 1H well recorded a 24-hour into-sales-line production rate of 8.8 MMcfd of natural gas from a seven-stage frac. The Black 2H well's production rate for the same period was 8.3 MMcfd into the sales line from a four-stage frac.

"We have our first three horizontal wells producing to sales at greater than 20 MMcfd," said Dan O. Dinges, chairman, president and chief executive. "With our continuing completion enhancements and 30 additional horizontal wells scheduled for 2009, I expect significant production and reserve additions from the Marcellus this year."

Cabot's first horizontal well, the Ely 6H, continues to exceed expectations, the company said. It was completed in two three-stage increments, with all six fracs being completed in early December. The

[2] *Fort Worth Star Telegram April 9, 2009*

24-hour initial sales production was 6.4 MMcfd. "This rate has held up strong, averaging 5.3 MMcfd into sales for the first 30 days," said Dinges. "This well has now been in production for 60 days, and the most recent 24-hour test rate was 5 MMcf, along with consistent pressure levels." "These three wells have filled Cabot's existing capacity of 21 MMcfd, temporarily shutting in the production for our vertical wells," said Dinges. "We will have added capacity up to 30 MMcfd by the end of March, moving to 65 MMcfd by the end of May." Dinges added, "We are making every effort to accelerate this expansion, as we have two more horizontal completions scheduled for March.[3]"

At Home in Tioga County

With things looking great to the south of the border we still face a number of issues in New York State.

- DEC still working SGEIS
- Force Majeure declared by Chesapeake and Fortuna

There is still not a crisp date at which DEC will release the SGEIS or a schedule to finalize the document. This of course effects customer interest in New York. I am hopeful that the SGEIS will be finalized by September, but who knows.

Both Chesapeake and Fortuna have sent certified letters to a large number of landowners who have leases near the ends of their primary term. Though the letters are different in their approach the end result is a declaration of Force Majeure. Force Majeure is a French term literally translated as "greater force", this clause is included in energy company leases to remove liability for natural and unavoidable catastrophes that interrupt the expected course of events and restrict participants from fulfilling obligations. In other words to allow the company to extend the lease term if they can find an excuse that fits the Force Majeure circumstance.

The Governors decree in July 2008 was not a moratorium on drilling for Natural Gas even in Marcellus. The existing energy company leases, grant access to all formations in the property. These formations include the Herkimer, the Marcellus, the Utica, the Onondaga, the Oriskany, the Trenton / Black River, the Theresa, the Potsdam, as well as other formations which may be gas bearing. All of the above formations, we believe, have commercially recoverable deposits of Natural Gas. In the parlance of your industry, this part of New York is a “Stacked Pay”. As a consequence, there are many formations to which the energy company could drill other than Marcellus.

Both companies must desire to drill the Marcellus apparently including a horizontal component. As we stated earlier in this newsletter, in Pennsylvania a number of Marcellus Wells have been drilled and are commercially producing, which have no horizontal component. It is our further understanding that these vertical Marcellus Wells do not require hydro-fracking but can be completed by other means. Therefore, they are not prohibited from developing the Marcellus with only a vertical component. It is our understanding that vertical Marcellus Wells which are not being hydro-fracked can obtain a permit quickly and therefore Force Majeure does not apply.
If anyone receives a **Force Majeure letter please contact Nick for our response letter.**

We are at this point seeing renewed interest in our county by several energy companies. We will of course work to obtain an offer which has both a fair price and sound lease with responsible environmental terms. When we obtain an offer we will bring it forward for consideration.

Interests peaked last summer with offers of $2500 per acre and 14% royalty. I hope to do better on all counts especially the royalty.

On the National Scene

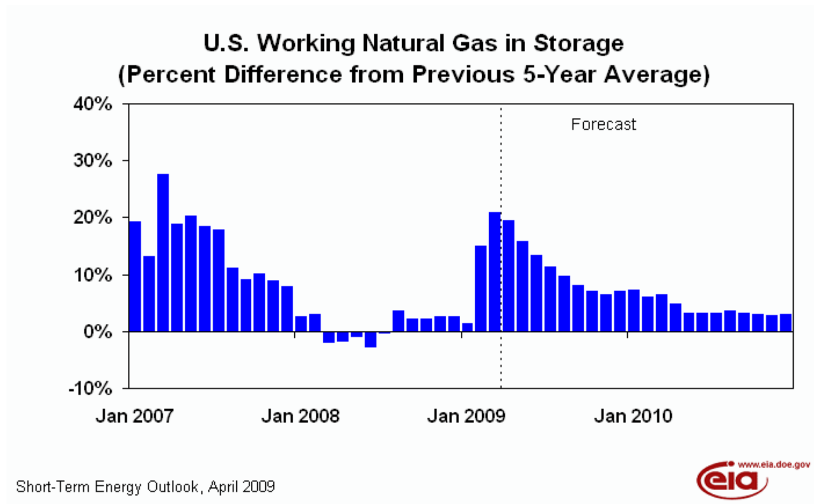
Consumption. Total natural gas consumption is projected to decline by 1.8 percent in 2009 and remain relatively unchanged in 2010 (Total U.S. Natural Gas Consumption Growth). EIA expects the current decline in economic activity will have a significant impact on natural gas consumption in the industrial sector, which is forecast to fall by 7.4 percent this year. In the residential and commercial sectors, where consumption is influenced more by weather than by macroeconomic conditions, natural gas use is expected to increase slightly in 2009. The expected 0.7-percent increase in natural gas consumption in the electric power sector this year is supported by a projection of lower natural gas prices for power generation relative to coal, particularly in the Southeast. The outlook for natural gas consumption in 2010 remains subject to uncertainty about the status of future economic conditions. If the economy begins to recover later this year as

3 *OGJ HOUSTON, Mar. 14, 2009*

currently expected and weather remains near normal, small consumption growth in the industrial and electric power sectors should be offset by small declines in the residential and commercial sectors.

Production. Total U.S. marketed natural gas production is expected to decline by 0.3 percent in 2009 and by 1.0 percent in 2010. Total working natural gas rigs in the United States have declined from slightly more than 1,600 in late August 2008 to slightly below 800 as of April 9, according to Baker Hughes. The precipitous drop in drilling activity and declining productivity of wells already in place are expected to cause production to steadily decline as the year progresses. The resultant impact of lower production in the lower-48 non-Gulf of Mexico (GOM) during the second half of 2009 is expected to more than offset higher year-over-year production during the first half of the year. Additional supply curtailments may be necessary as natural gas storage levels approach capacity later this summer. Marketed production from the Federal GOM is expected to increase by 1.9 percent in 2009 because of continued recovery from the 2008 hurricane season and new supplies associated with the startup of offshore oil production facilities. Despite expectations of higher prices and the recovery of drilling programs next year, total production in 2010 is expected to be lower in both the lower-48 non-GOM and Federal GOM regions.

Inventories. On April 3, 2009, working natural gas in storage was 1,674 Bcf (U.S. Working Natural Gas in Storage). Current inventories are now 310 Bcf above the 5-year average (2004–2008) and 438 Bcf above the level during the corresponding week last year. This year's end-of-March working natural gas storage level was the second highest recorded since 1991, exceeded only by the 1,692 Bcf recorded at the end of March 2006. Working natural gas inventories are projected to rise to possibly new record-high levels by the end of the summer injection season[4].



Storage fields are federal projects designed to buffer the supply of gas to handle seasonal fluctuations. The storage fields are so extensive that they represent an opportunity for the energy company to store natural gas purchased from the cheapest supplier and stored in our county. The Stagecoach Field is supplied with product from the south thru the Tennessee Pipeline carrying gas from cheaper gas from Texas and Louisiana. On the north end, Stagecoach connects to the Millennium Pipeline a 0.5 Bcf per day 182-mile natural gas pipeline system ending in New York City. The capacity of the pipeline is being used to carry natural gas from other parts of the US and Canada. The Empire Pipeline system feeds the Millennium in Horseheads with product from Niagara Falls, Canada.

Natural gas producers face oversupply until demand returns. Natural gas prices have strengthened in the past week, but a new study by one of the nation's most-respected energy forecasters suggests that until demand returns, producers face a long-term oversupply in North America.

Cambridge Energy Research Associates said new sources of natural gas, notably shale gas fields such as North Texas' Barnett Shale, have dramatically boosted reserves and production capacity. Just as importantly, the study concludes, so-called unconventional gas fields like the Barnett should maintain their production longer, meaning that reduced drilling rates will have less impact on production than previously assumed.

"North American gas production is no longer opportunity constrained," Robert Ineson, one of the study's authors, said in a prepared release.

Gas shale's and other new gas resources "are extensive, and

4 *EIA.doe.gov*

North America now has a sufficient inventory of drillable prospects to maintain or, if necessary, increase productive capacity for at least the next 10 years — even after the current recession becomes a memory," Ineson said.

Producers in the Barnett Shale and elsewhere have slashed drilling budgets in response to low prices in recent months. In the Barnett Shale, the number of active drilling rigs has fallen by more than half from its peak in October, and the rig count nationwide is down 47 percent.

In the view of most producers, the sharply lower drilling will translate into declining production by year's end. Natural gas wells typically experience a decline of at least 50 percent from their initial production in their first year, with lesser declines for several years before flattening.

The U.S. Energy Department, for example, forecasts a 5 percent decline in natural gas production during the year's fourth quarter.

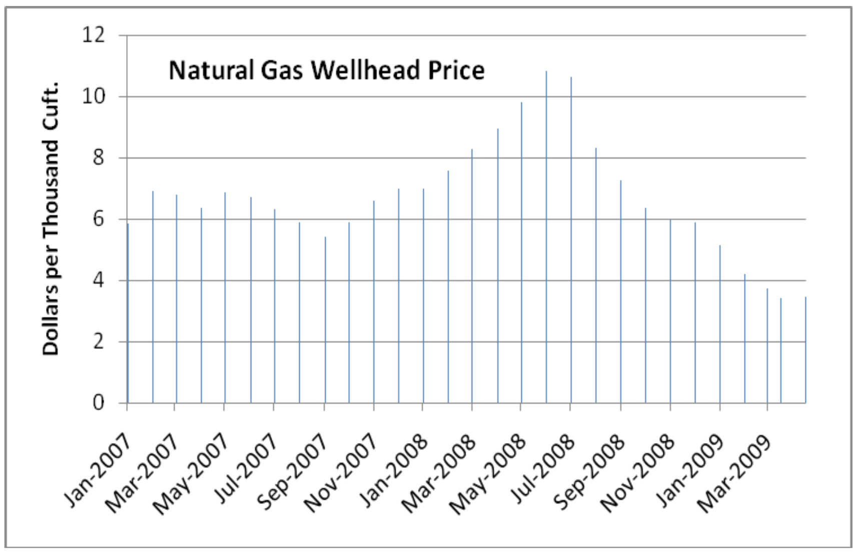
"Fundamentally, the only thing you've got to hang your hat on is the drastic cut in rig counts, if you're a bull," Brad Florer, a trader at Kottke Associates in Louisville, Ky., told Bloomberg News on Tuesday.

Tuesday, natural gas futures rose 5.3 cents to $4.347 per million Btu, its highest since Feb. 13. Still, gas futures are down 23 percent for the year.

According to a Bloomberg survey of 20 analysts, natural gas is expected to average $6.84 in the fourth quarter and $7.50 in 2010.

But Cambridge takes the view that there has been so much development of new sources of gas that the decline rate in production will be less than before. This means, the study says, "that a smaller quantity of new production is required to offset natural production declines[5]."

Price. The chart below shows wellhead monthly average price. The average well head price over the past ten years is $5.18. Lower consumption, brought about by the economic slowdown, and higher production levels have been the primary contributors to lower natural gas prices. Henry Hub spot prices began April below $4 per Mcf and, absent signs of dramatic economic recovery, are expected to remain below $4 until seasonal space heating demand picks up this fall. Higher prices are expected in 2010 as the economy improves. In addition to demand recovery, the current drilling cutback and limited access to credit for producers could lead to even higher prices if supply fails to keep pace with demand in the short-term.



Important New Energy Bill

Bill# H.R.1835
Sponsor: Rep Boren, Dan [OK-2]

SUMMARY AS OF:
4/1/2009--Introduced.

New Alternative Transportation to Give Americans Solutions Act of 2009 - Amends the Internal Revenue Code to: (1) allow an excise tax credit through 2027 for alternative fuels and fuel mixtures involving compressed or liquefied natural gas; (2) allow an income tax credit through 2027 for alternative fuel motor vehicles powered by compressed or liquefied natural gas; (3) modify the tax credit percentage for alternative fuel vehicles fueled by natural gas or liquefied natural gas; (4) allow a new tax credit for the production of vehicles fueled by natural gas or liquefied natural gas; and (5) extend through 2027 the tax credit for alternative fuel vehicle refueling property expenditures for refueling property relating to compressed or liquefied natural gas and allow an increased credit for such property.

[5] *Fort Worth Star Telegram April 9, 2009*

Requires 50% of all new vehicles purchased or placed in service by the U.S. government by December 31, 2014, to be capable of operating on compressed or liquefied natural gas.

Authorizes the Secretary of Energy to make grants to manufacturers of light and heavy duty natural gas vehicles for the development of engines that reduce emissions, improve performance and efficiency, and lower cost.

COSPONSORS(57) but only (2) from New York

Rep Massa, Eric J. J. [NY-29] - 5/5/2009
Rep McMahon, Michael E. [NY-13] - 4/1/2009

This is an excellent opportunity for our group to have some impact on humanity. The bill has the teeth to free America from the grip of foreign oil, to improve our economy and environment. It will put Americans back to work to create new cars and trucks running on compressed or liquefied natural gas. It will create an infrastructure of fueling stations throughout the US. An industry of garages to convert existing diesel or gasoline vehicles will develop.

In addition to being great for America's economy this would create a local demand for our Natural Gas here in New York. It should also drive up the price we receive to higher levels and reduce our dependency on Millennium Pipeline capacity. Our environment will be very dramatically improved. We need to express our support for this bill by writing to our representatives.

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Editors Comments

The previous articles are intended to provide some historical reference as to the activities in other plays which have developed before Marcellus. With the current offers in Tioga County running at or less than $2500 / acre and 14% royalties there is a lot of room for price growth.

The Landman and the Gas company have a full understanding of the value of the mineral rights under your property. Their objective is to commit you to a lease for the least cost and with the terms biased toward the company. The lease is a very complex business transaction and represents a legal contract between you and the gas company. DEC does not have authority to regulate private contracts.

You have one opportunity to form a contract which is compatible with your planned use of your property. The terms and conditions of your lease need to provide the protection for your property and the area environment. The lease is the only vehicle which can provide protection and define the relationship between the two parties. These rules of engagement need to be well defined before the gas company starts working on your property. Once the work begins it is too late and you may have up to forty years to regret your decision.

Our objective as a landowner group is to help educate you on gas leasing and define terms favorable to your lease. We are landowners like you and are providing our help at our own expense.

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