

March 27, 2009

Memorandum

To: Edward G. Rendell, Governor

From: Michael DiBerardinis, Secretary, DCNR

CC: Greg Fajt, Donna Cooper, Steve Crawford

**Re: Marcellus Leasing in State Forests**

The intense interest in conducting additional gas leases on state forest lands is of great concern to DCNR as the state's stewards of this resource, and to me personally.

We understand the budgetary challenges that the Administration faces and the need for our agency to be part of the solution. We want to develop with you an approach to distributing future lease sale proceeds and royalties that relieves pressure on the general fund while reinvesting in natural resources.

There are several important points that should guide consideration of future sales.

First, 660,000 acres of State Forest lands are currently available for Marcellus exploration. About 370,000 acres (including our recent lease of 74,000 acres) are already under lease in the Marcellus Fairway. Private industry owns or leases natural gas rights on another 290,000 acres of State Forest lands. So far, two Marcellus wells have been drilled in this entire area. Over 4,000 Marcellus wells could conceivably be initiated on these acres alone. We believe that full development of this area could take 10-20 years or more. While royalties from these wells are not likely to exceed \$10-15 million in the next 2 to 3 years, they could exceed \$100 million annually in the next several decades.

Second, the assumptions made - by the Budget Office and by the legislature - about the revenue potential of additional lease sales are, frankly, wrong. The State Forest lands with the best production potential and proximity to transmission lines are already leased. Future sales will not command the premiums we saw in 2008. Further, prices for natural gas are currently depressed - so much so that it is very likely that one of the successful 2008 bidders on these prime lands, Seneca Resources, will walk away from its lease due to a lack of financing.

Recent Marcellus leases in the market are running about \$300 per acre, compared to \$2500 per acre six months ago. To even come close to the Budget Office's 2010 estimated lease sale proceeds of \$150 million under current market conditions, we would have to put at least a quarter million acres or more out to bid. That is almost four times the amount of the 2008 lease sale, and it is doubtful that we would even receive bids on much of the land. The projection is completely unrealistic.

Third, wholesale leasing will damage our State Forest landscape. It would scar the economic, scenic, ecological, and recreational values of the forest - especially the most wild and remote areas of our state in the Pennsylvania Wilds. Your years of work and investments in rural economic revitalization through outdoor experiences in the Pennsylvania Wilds could be erased.

Fourth, a rush to drill threatens the certification of our State Forests as sustainably managed. Our state forest system has been independently certified as well-managed - assuring for long-term health while allowing for many different uses. Within that certification, we've successfully accommodated multiple - and often competing - interests, and been recognized for our excellent management and even-handed approach. Current staffing levels are stressed to provide management and oversight of drilling activity. We are significantly understaffed to provide oversight on additional acreages. Our ability to sustainably manage our State Forests is threatened by unplanned, excessive leasing activity.

Fifth, diverting the Oil and Gas Fund's lease sale and royalty proceeds toward general use and away from their legislated purpose sets a dangerous precedent. This reliable funding stream -- intended to offset the impacts of resource extraction - has endured through 50 years and multiple administrations, providing stable investments in conservation and environmental protection. The fund has supported the acquisition, infrastructure investments, and maintenance of our state parks and forests that make them what we enjoy today.

Clearly, today's windfall proceeds are unprecedented, and some diversion to relieve budgetary pressures is reasonable. However, I believe that we need to maintain a balance between meeting current needs and preserving the State Forests for future generations. A continuing, reasonable level of reinvestment of lease sale and royalty income is needed to strike that balance.

Finally, and perhaps most important of all, is the environmental legacy you want to leave. I'm deeply concerned that your tireless work for Growing Greener 2, the Pennsylvania Wilds, and environmental protection will be in jeopardy with large scale leasing.

One hundred years ago, the land that would become the state's forests was a denuded landscape that was scarred by rampant resource extraction. Our State Forest system - the largest swath of publicly owned land east of the Mississippi River - grew from a visionary effort to reclaim this landscape and restore to Pennsylvania's citizens their natural birthright. The wise stewardship of these lands since then has struck an appropriate balance between economic development and environmental protection. A rush to drill places the state forest and all its benefits at great risk. A course of balanced management will protect and enhance the legacy we inherited and allow us to deliver it safely to future generations of Pennsylvanians.