

Quigley, John

From: Quigley, John
Sent: Wednesday, May 06, 2009 6:14 PM
To: Roy, K (GOV); Soderberg, Mary
Cc: Quigley, John; Grace, James (DCNR); Cooper, Donna; Fajt, Gregory; Crawford, Steven
Subject: RE: Two Things

Scott and Mary,

Short answer is yes to 80K acres of additional SFL leases in 2009, with caveats explained in the attached memo.

Please let me know if you want to discuss further.

John

John Quigley
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JQ_Memo on
Additional Gas Leases..

From: Roy, K (GOV)
Sent: Wednesday, May 06, 2009 11:04 AM
To: Quigley, John
Subject: Two Things

- 1) Any update on additional acreage to be leased, and
- 2) Just want to confirm DCNR's intent to have lifeguards in the parks this summer.

Thanks.

May 6, 2009

Memorandum

To: Scott Roy, Mary Soderberg

From: John Quigley, Acting Secretary, DCNR

CC: Greg Fajt, Donna Cooper, Steve Crawford

Re: Marcellus Leasing in State Forests

You have asked DCNR to be prepared to offer for lease a total of 80,000 acres of State Forest lands for Marcellus gas development in 2009. That is an additional 40,000 acres over and above the 40,000 acres that we are already preparing for a lease sale this year per your earlier request.

DCNR can and will offer the total 80,000 acres, at the Governor's direction. We would like to stage the sales in two separate sales of 40,000 acres each; we are well into the preparations for the first 40,000 acres and must begin work on the next phase from scratch.

The initial 2009 lease sale of 40,000 acres will be announced in July and be held in October. In the event that the first lease sale is successful, the second sale of 40,000 acres would be advertised in January 2010 and be carried out in March of 2010.

The lack of additional SF land in proximity to pipeline infrastructure will very likely make this second lease sale less desirable. Further, gas development on these lands would require the construction of additional roads and pipelines making these areas much more susceptible to fragmentation and associated disturbance, and of elevated concern environmentally.

I want to be very explicit about the situation that this will place us in. These would likely be the last gas lease sales on State Forest land that we could manage within the context of our sustainable certification for the foreseeable future.

As Secretary DiBerardinis' memo to the Governor of March 27, 2009 (reproduced below for ready reference) indicated, DCNR remains very apprehensive about the leasing of additional State Forest land. Field staff who are charged with managing exploration activity on SFL are deeply concerned about any new leases. With limited personnel and budgetary resources, we will be overextended in attempting to manage activity on the 660,000 of SFL currently available for exploration; the addition of 80,000 acres will only add to the challenge.

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As we have indicated in the past, with gas prices low and financial capital scarce, we do not think that additional lease sales at this time will support high financial returns. We are also likely to get significant push back from the environmental community on additional leasing.

When we met on April 9, we discussed the possibility of some portion of future lease sales remaining with DCNR to cover operating costs and to allow for some investment in legislatively intended uses. You encouraged us to make such a proposal, and I would like to do that here.

Such a commitment would ameliorate -- but not totally overcome -- the likely opposition from the environmental community. More importantly, some reinvestment in the resource is particularly critical now in light of our shrinking operating budget. As you know, the downturn in the timber economy has made the Bureau of Forestry Budget extremely vulnerable to significant shortages.

As a point to begin the discussion, we would propose that the first \$20 million of revenue remain in the Oil and Gas Lease Fund, with at least 80% of that amount to be used for its intended uses of conservation and recreation, and the rest offsetting the operating budget. We would further propose that additional revenue after the first \$20 million would be split 20/80 with 20% being retained in the Oil and Gas lease fund for our use and 80% being returned to the General Fund.

I am, of course, open to further discussion on this and sincerely appreciate your openness to it, especially in the present financial environment.

I would be happy to answer any questions you may have and would be pleased to discuss this further at your convenience.