



Senate Environmental Resources and Energy Committee

Senator Mary Jo White Chairman

Patrick Henderson, Executive Director

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November 23, 2010

The Honorable John Quigley
Secretary of Conservation and Natural Resources
7th Floor Rachel Carson Building
Harrisburg, PA 17105

Dear Secretary Quigley:

Thank you for your letter replying to my questions concerning the Department's acquisition of additional land for the Lackawanna State Forest. I am writing to share my thoughts on several points raised in your letter.

While I cannot speak for everyone who has voiced opposition to Governor Rendell's moratorium on additional leases of state forest lands, I can assure you that my reaction was not "knee-jerk". Nor was it done without reviewing and considering the information compiled by your Department. However, I still believe the moratorium issued by Executive Order is shortsighted and was nothing more than a pre-election publicity stunt.

As you know, the House of Representatives passed a three-year moratorium in May 2010. I certainly voiced my personal opinion that I did not believe a moratorium – a legislative prohibition on leasing – was warranted, but I have always had an open door and a willingness to discuss issues and find middle ground. People can be opposed to a moratorium without advocating for wholesale leasing of our state forests. Given the state's selective approach to leasing over the years – including through the Marcellus Shale frenzy – I simply do not believe a moratorium is necessary.

I have repeatedly given credit to DCNR for its stewardship of state lands, and commended the agency for well-written leases that protect the land while enabling the Commonwealth to develop natural gas. A blanket moratorium, however, would deprive the agency of strategic leasing opportunities that can realize significant revenue for taxpayers with minimal impact on state land. Indeed, your lease of over 30,000 acres to Anadarko, which netted \$120 million plus tens of millions in eventual royalties, and will result in the disturbance of perhaps 300 acres or less, would have been prohibited had HB 2235 been enacted. Finally, I find it telling that the Governor found the time to travel to Philadelphia in late October to announce his Executive Order, yet not once in six months did you or the Governor find the time to discuss this legislation with me.

I also continue to have significant reservations with respect to DCNR and DEP's recent policy on handling permits for activity on state parks and forests. To suggest that opposition to this "common sense" policy means that I, or others, would simply cast aside any concern for the impact of drilling on state lands is absurd. This policy was announced via press release on October 28th. To my knowledge, and according to DEP staff, the policy was not reviewed or provided to any of DEP's citizen advisory committees. I am not aware of

The Honorable John Quigley
Secretary of Conservation and Natural Resources
November 23, 2010
Page 2

the policy being taken to DCNR's own advisory council for review and input. Nor am I aware that any outreach was made to the oil and gas industry to discuss the policy, if for no other reason than to apprise the industry of what the Commonwealth's expectations for future permit applications would be. Moreover, as I indicated in my letter of November 4th to the Governor, and copied to both you and Secretary Hanger, there are serious concerns that the new policy is illegal and puts our existing leases in jeopardy. I remain open to discussing legislative changes that would better protect all lands from drilling – private lands deserve no less protection than public lands – but I am hopeful that Governor-elect Corbett will rescind this policy in January.

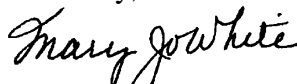
In addition, Senate Republicans also worked through the summer on a number of other issues related to Marcellus Shale drilling. We were the only caucus to put together a comprehensive environmental protection and safety legislative package. The Administration's proposals on safety were literally cobbled together in early October as a mark-up of the draft our caucus shared (yet, some DEP staff apparently found the time to track and report on campaign contributions). Clearly, there was no concerted effort on behalf of the Administration to have a serious discussion on these issues.

You are entitled to your position on a severance tax. In fact, I have said myself that I would be open to a reasonable tax or impact fee under the right circumstances. However, the key is "reasonable". The House Democrats advocated for and passed a severance tax rate that, at nearly 10% (actually higher now that the price of gas has declined), was anything but 'reasonable' and was approximately 60% higher than the tax rate sought by Governor Rendell. House Democrats had no desire to compromise on a more reasonable rate because they had already satisfied their political objectives: pass a punitive tax rate that promised lots of money to their core constituencies, and then blame the Republicans when it doesn't pass.

Anyone who thinks that a punitive tax rate won't discourage investment and exploration in Pennsylvania doesn't understand economics. Already this year, the Eagle Ford shale in Texas has seen a significant shift in resources from other shale plays. There are already more rigs in the Eagle Ford region than in Pennsylvania, increasing from 8 in 2008 to more than 107 today. The Eagle Ford is attractive for several reasons, including its proximity to the established industry in Texas, Oklahoma, Arkansas and Louisiana and the fact that, unlike the Marcellus Shale, the Eagle Ford is also a major crude oil play. And finally, as you may know, earlier this year the Texas Railroad Commission suspended the state's severance tax for Eagle Ford shale wells in several core counties, and expansion of this tax suspension to other regions is anticipated. In short, Pennsylvania is very much in a competition for investment, and a knee-jerk reaction that seeks to impose a tax on an industry without thinking through the complexities of the issue is bad policy.

Thank you for the opportunity to share my thoughts.

Sincerely,



Mary Jo White, Chairman
Senate Environmental Resources
& Energy Committee