

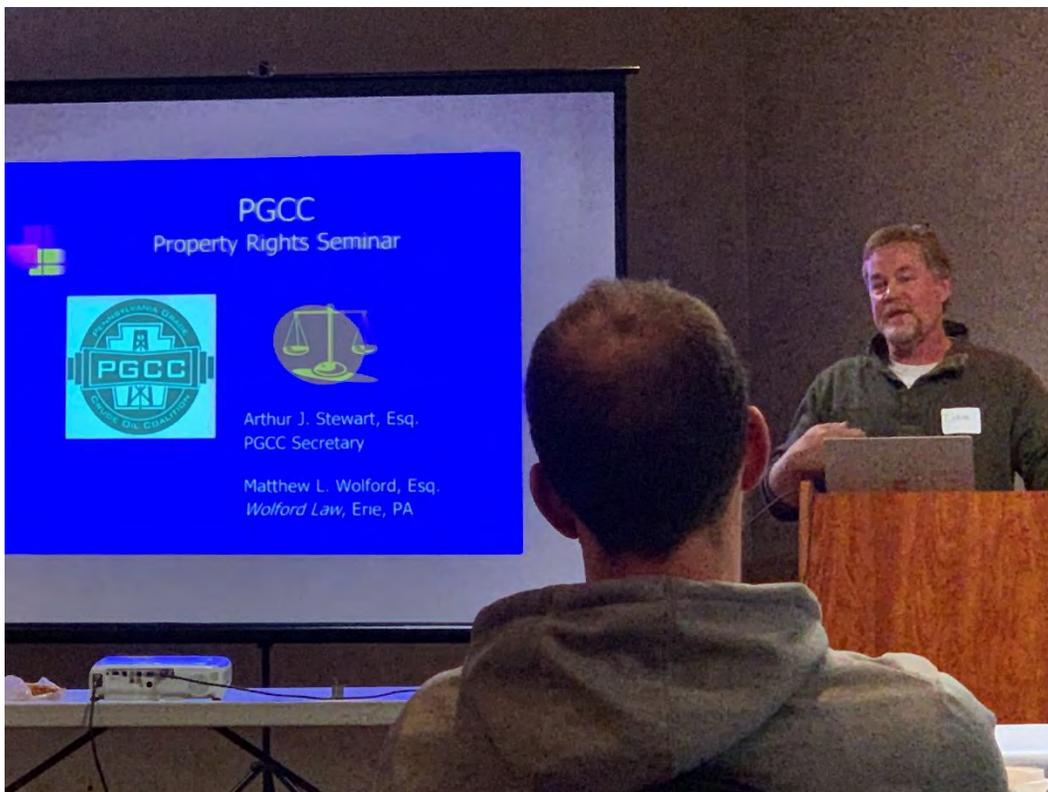


March 2019 News Letter

Hello from Arthur Stewart, Secretary

Here's the news...

1: PGCC Property Rights Seminar



PGCC President, David Clark, introduces Attorney Matthew Wolford

In February PGCC presented a legal seminar on property rights. Attorneys Matt Wolford and Arthur Stewart delivered some good news, reminding oil and gas operators they have the right to use the surface “as reasonably necessary” to remove oil and gas. They covered private surface ownership as well as surface ownership by the Federal and State governments (Allegheny National Forest, State Gamelands, Parks, etc.)

Over 45 PGCC members and non-members attended. The next day several attendees sent unsolicited comments: “The presentation was brilliant. Not a single person left early.” “Very nicely done seminar and I have attended 100s in my years in education.” And “best I’ve heard in 20 years.”



Matt Woford (Woford Law, Erie, PA)

Matt is a great oil and gas practitioner and a friend to many PGCC members. PGCC extends a warm thank you to Matt for volunteering his time and expertise.

Several PGCC members requested that Matt return, and in late 2019 look for the invitation to attend Matt’s seminar on personal liability.

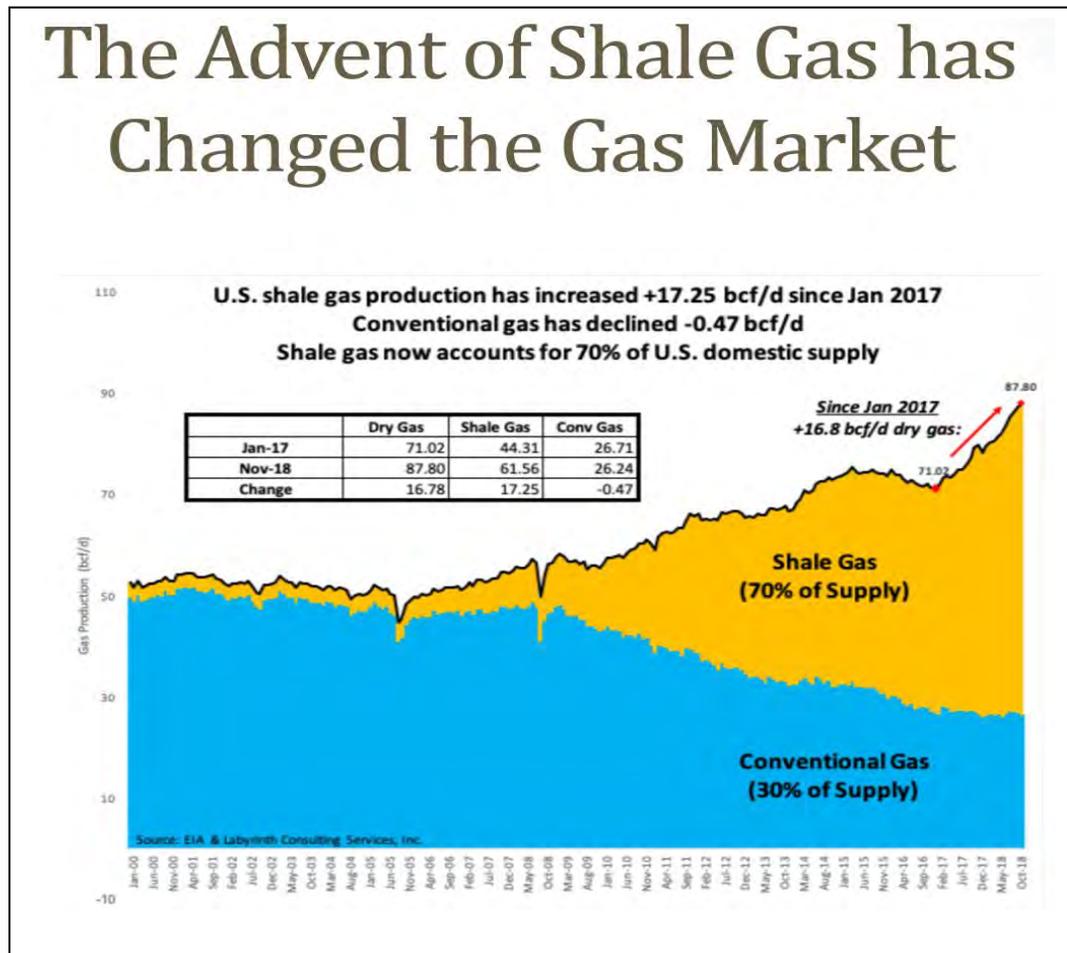
2: PGCC at CDAC

PGCC members Bruce Grindle, Joe Thompson, and Arthur Stewart serve on the PA Crude Oil Development Advisory Council (CDAC). CDAC meets three times a year; the CDAC Board includes legislators, DEP, DCED, Penn State professors, conventional oil and gas producers and representatives from ARG and ERGON refineries. CDAC spent a great deal of time in 2018 working on a new Conventional Oil and Gas Act, the orphan well problem, and the disposal/usage of produced water (see the related article on brine spreading, below).

At the January 2019 CDAC meeting CDAC Economic Committee chairman Joe Thompson gave a presentation demonstrating how the development of unconventional shale formations across the US has played a role in transforming the world oil and gas market. Joe summarized the unique difficulties this creates for PA's conventional oil and gas industry.

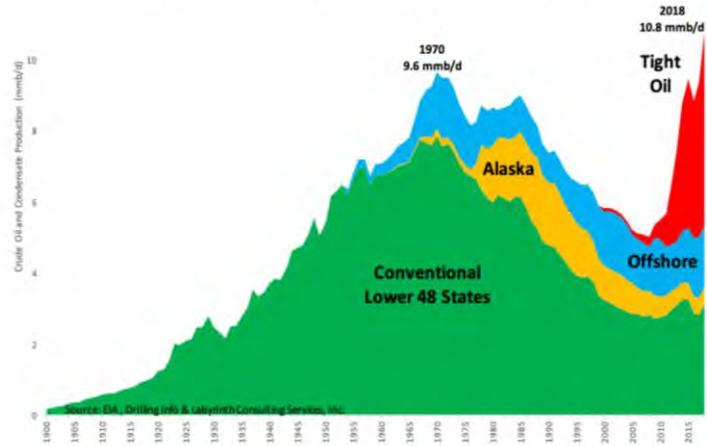
The presentation had great impact upon the CDAC members, with several noting it sparked a new or significantly improved understanding of the difficulties weighing on PA's conventional oil and gas industry. Part of Joe's report is reproduced here.

The unconventional shale development has radically transformed this country's oil and gas supplies:



The Advent of Shale Oil has Changed the Oil Market

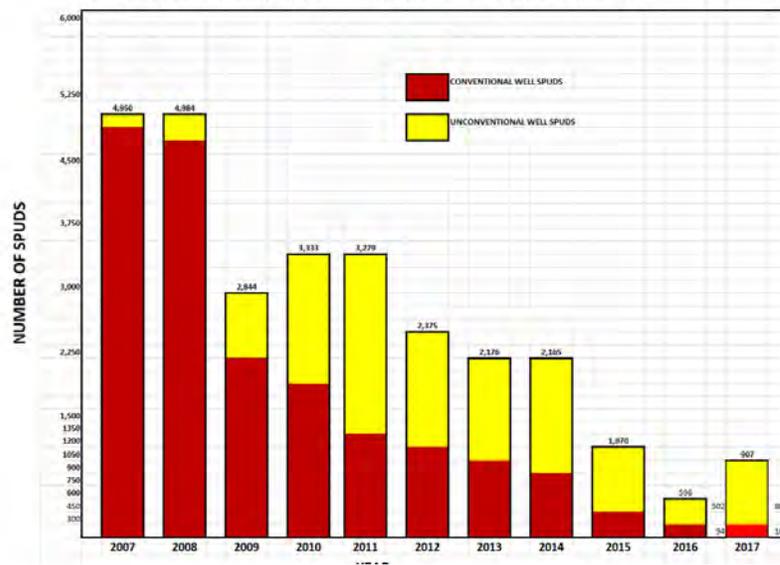
Conventional Lower 48 States production has declined 60% from 7.8 to 3.1 mmb/d
 Lower 48 + Alaska + Offshore production declined 45% from 9.6 to 5.3 mmb/d
 Tight oil has increased to 5.4 mmb/d, 51% of U.S. output



The oversupply of gas has resulted in ten years of shockingly low gas prices, and the oversupply of oil saw oil prices collapse five years ago. Virtually no conventional gas wells have been drilled in PA in the past 7 years and new oil well starts have dropped dramatically:

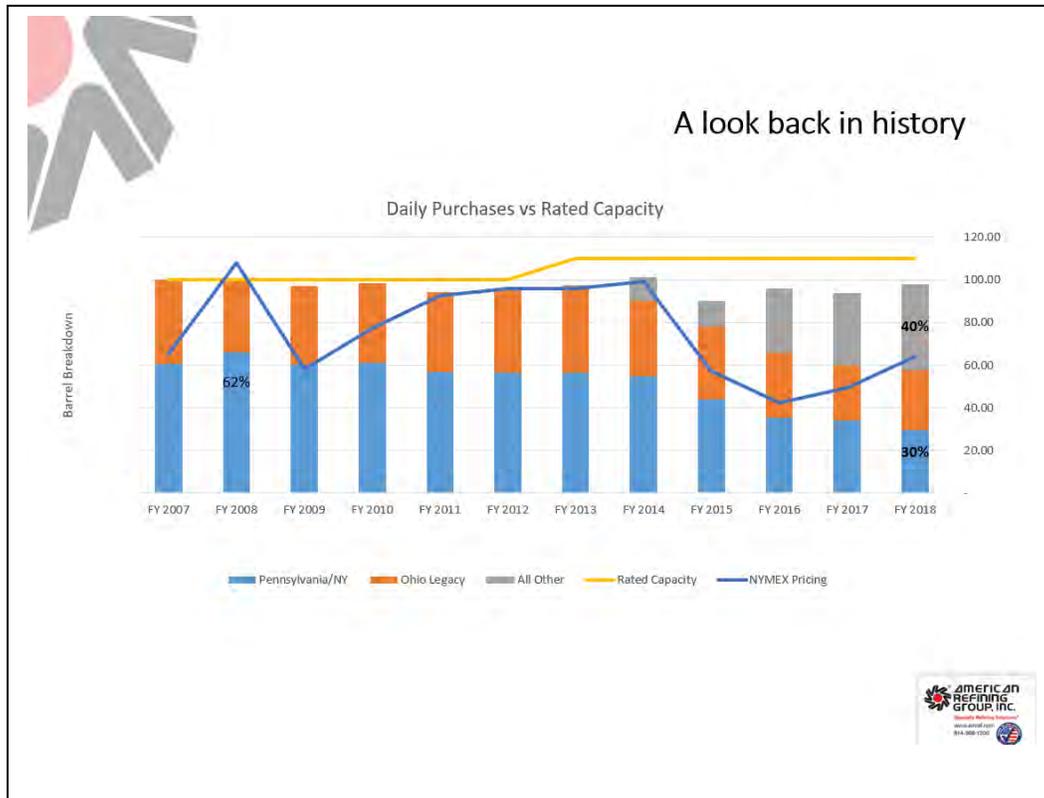
2018 Disappointed

PA DEP YEARLY OIL AND GAS WELL SPUD DATA (CONVENTIONAL & UNCONVENTIONAL)



A resurgence in oil prices in early 2018 injected some optimism, but in November 2018 oil prices began a drop of some 40%, and by year's end only 139 new conventional wells had been drilled.

The two refineries purchasing PA Grade Crude Oil contributed data showing their amount of crude oil sourced from PA has dropped dramatically over the past ten years, resulting in higher operating costs. Illustrative is the chart provided by ARG Refinery showing that it is currently railing in 70% of its crude supply from distant destinations such as Canada and New Mexico:



Joe showed how these market difficulties, combined with additional regulatory burdens such as additional casing requirements and reporting requirements, have created a business operating atmosphere in which closures and layoffs have been rampant. That loss of infrastructure has also led to supply and service chain shortages which reduce competition and further hike costs.

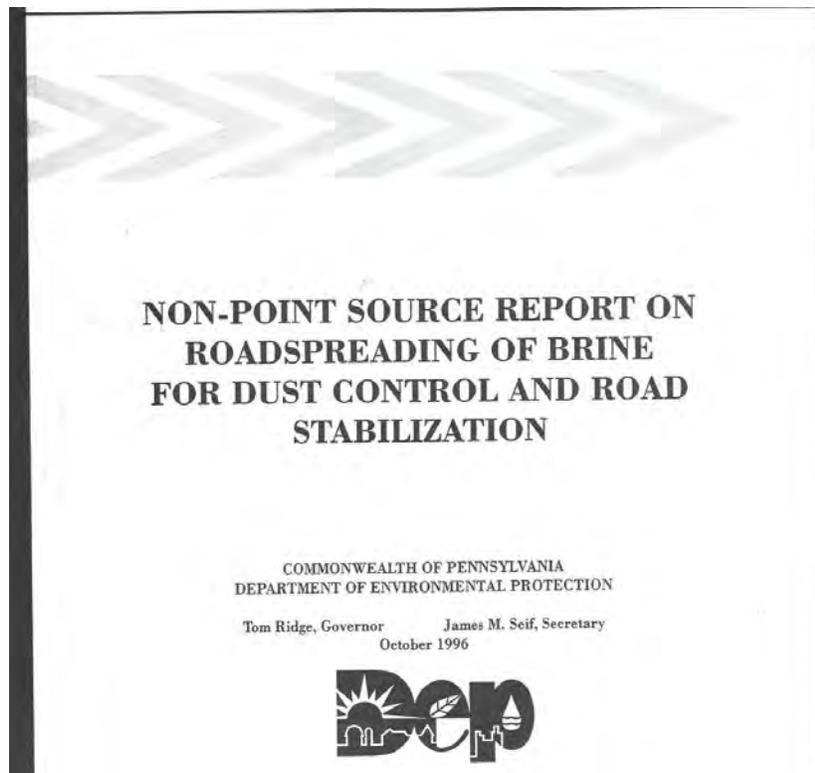
It was valuable for CDAC members (such as DEP, professors, etc.), who don't live and breathe the conventional business, to learn about these hardships. CDAC plans to update and present the report annually.

3: Brine Spreading

For over twenty years the DEP has authorized the spreading of brine, on dirt roadways, to suppress dust. The DEP did this under a Guideline program that controlled the location and quantity of brine spreading. A lawsuit filed in Warren County by a Farmington Township resident, questioned the authority for the

brine spreading program. The lawsuit ended without the court making any findings about brine spreading because the DEP told the court it wouldn't issue permission to haulers (but not producers) in the future. That made the case moot. Since the termination of the case the CDAC Council and the CDAC Water Committee have asked DEP to reinstate the Guideline program for producers. The DEP has thus far declined because the current DEP staff said they did not know if there was a scientific basis for the program.

Over the winter David Clark located a DEP study written in 1996, titled NON-POINT SOURCE REPORT ON ROADSPREADING OF BRINE FOR DUST CONTROL AND ROAD STABILIZATION. That study was done in combination with the EPA over a period of three years. It contains thorough scientific testing and analysis, and its recommendations included the adoption of the Guideline program used by the DEP for all these years (rather than a general permit). David brought that study to the attention of CDAC and CDAC used the report at its January 2019 meeting to ask the DEP to reinstate the Guideline program.



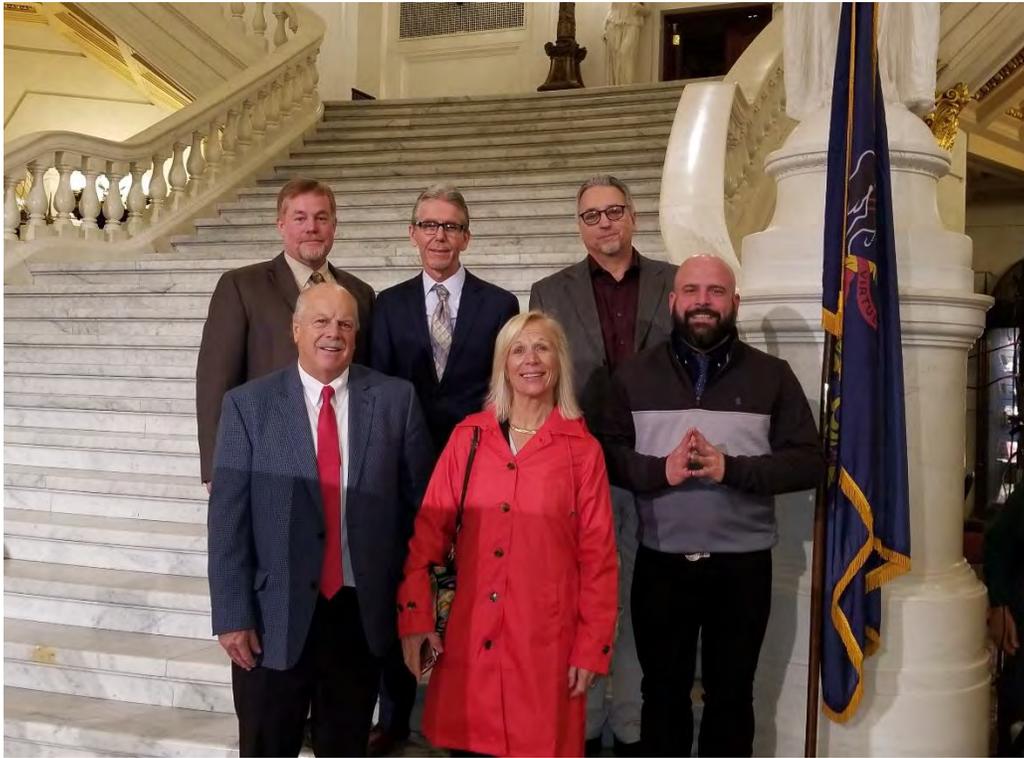
The DEP's 1996 Study

CDAC appointed a special committee to meet with DEP Secretary McDonnell to discuss the 1996 study and to discuss innovative ways to pretreat brine to make it even more suitable for spreading. Despite numerous requests, Secretary McDonnell has not yet agreed to meet.

4: Continuing the Visits to Harrisburg

PGCC members traveled to Harrisburg in February and again in March, to tell the story of Pennsylvania's conventional oil and gas industry. There are many freshmen legislators who know nothing about the

conventional industry. PGCC's members used photos, stories, and economic information to introduce the conventional industry to the new legislators and to make sure our industry is not confused with the unconventional shale industry.



PGCC's Legislative Committee visited legislators in February. Pictured (rear) David Clark, Bruce Grindle and Ray Follador. (front) Wally Phillips, Sue Phillips and Joe Thompson (Joe is praying for regulatory relief)

In March, the PGCC Legal Committee took its turn in Harrisburg. In addition to meeting freshmen legislators the Legal Committee sought information on **two new Senate Bills** (281 and 282) which could erase all the important protections PGCC preserved two years ago with PA One Call. It's too early to panic because the bills are in the early stages, but PGCC met with Senators and staffers for the Environmental Resources and Energy committee where the bills will be worked on further.

Over in the House of Representatives PGCC members found a great deal of continued interest in the Conventional Oil and Gas Act. That bill had a great deal of support in the House when it passed last year, and many House members said they would like to see the bill re-introduced in the House as soon as possible. One of those House members is Jeff Pyle who shared with us insights about energy matters in Pennsylvania, including the news that Pennsylvania's nuclear industry's is looking for a half billion dollar bailout.

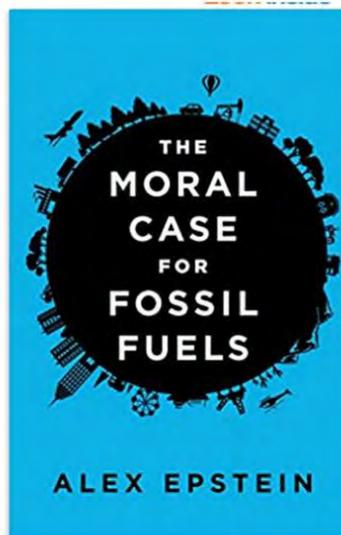
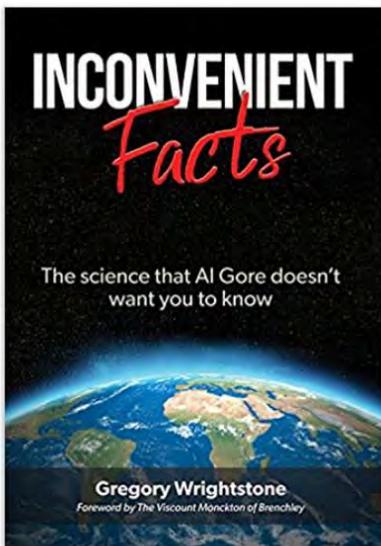
During the March visit PGCC took a new initiative to Harrisburg. The DEP Secretary has called Climate Change "the greatest threat" to Pennsylvania. Climate change has quickly become a political issue; the politics invariably involve strategies to diminish or do away with the use of fossil fuels.



**David Clark, Paul Morris, Rep. Jeff Pyle, and Stuart Morris gather in Rep. Pyle's Harrisburg Office
Rep. Pyle understands the needs of PA's conventional industry.**

To answer the strange and often one-sided claims about fossil fuels, PGCC distributed 50 copies of two books to legislators and staffers in Harrisburg. The reaction was positive. Legislators report that the fear of climate change is sweeping Harrisburg with a near-religious fervor. Science is being ignored.

The books bring science and logic to a discussion that desperately needs some. Every PGCC member should have these books in their library. Get informed. Let's elevate the climate change discussion.



Both books are available on Amazon in Hardback, Audiobook, Kindle and Audio CD.

5: Chapter 78 Returns?

At the end of March PGCC learned the DEP has issued notice it intends to bring revised Chapter 78 regulations, for the conventional industry, to the Environmental Quality Board, the last quarter of 2019. DEP has not contacted PGCC or CDAC about its plans. PGCC will investigate and keep you posted.

As a reminder, last summer DEP postponed its rollout of any revised Chapter 78 regulations in order to work cooperatively on a new Conventional Oil and Gas Act (COGA). The process began with a great deal of cooperation and positive exchanges between DEP and industry. But through the summer and fall of 2018 the DEP failed to deliver any suggested language for the COGA, despite their repeated promise. This spring more meetings were scheduled with the DEP to look at specific language. PGCC President David Clark attended a Harrisburg spring meeting; but again, the DEP did not bring any specific language.



**PGCC Board met on March 29 to discuss Ch. 78, severance tax, and other industry challenges
(photo by Glenn Baldensberger)**

6: Severance Tax Returns

Governor Wolf is proposing a severance tax in a new form. Instead of including the tax in the State's budget, the Governor is proposing a severance tax to fund NEW spending under "Restore Pennsylvania". The Governor's press release states: "Restore Pennsylvania will invest \$4.5 billion over the next four-years in significant, high-impact projects throughout the commonwealth to help catapult Pennsylvania ahead of every state in the country in terms of technology, development, and infrastructure."

“It is far past time that Pennsylvanians stop allowing our commonwealth to be the only state losing out on the opportunity to reinvest in our communities,” said Governor Wolf. “And as long as that is allowed to continue – my vision of a restored Pennsylvania that is ready to compete in the 21st century economy will never become reality.”

Governor Wolf calls the new tax a “commonsense” tax. There is no word yet as to whether his proposal would tax conventional oil and gas production.

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