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Rendell officials defend no-bid natural gas deal

By Andrew Maykuth

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Rendell administration officials say the \$120 million no-bid deal they struck with Anadarko Petroleum Corp. to develop natural gas on 33,000 acres of public forests was negotiated in Pennsylvania's best interest.

The deal, announced May 11 by Gov. Rendell, allowed the governor to generate sufficient revenue from state forests to satisfy a budget deal struck last year with legislators.

With his budget obligations fulfilled, Rendell was liberated to throw his support behind a legislative initiative to declare a moratorium on further leasing in state forests until the impact of Marcellus Shale gas development is known.

"It gets us to the revenue target we needed without having to put up a lot of other state forest land that is more pristine," said Gary Tuma, Rendell's spokesman.

Senate Republican leaders, committed to not raising taxes and worried about budget deficits, are unwilling to declare the state forests off limits to more leasing. About 725,000 of the state's 2.1 million acres of forests have been leased - 65,000 acres this year.

But no more public land will be offered during Rendell's remaining months in office.

"Enough is enough," said John Quigley, secretary of the Department of Conservation and Natural Resources (DCNR). "Continued reliance on the state forests is not sustainable, for both economic and environmental reasons."

The Anadarko deal came about serendipitously, Quigley said. He said state officials were considering ways to conduct a new lease sale to generate enough revenue to satisfy a promise to raise \$180 million for next year's budget. Because a January auction generated more revenue than expected, the DCNR needed to raise only about \$120 million more to hit the target.

Though the DCNR typically puts new leases out for bid, a provision in the law allows the department, with the governor's approval, to negotiate mineral leases with adjacent property owners.

Anadarko, the largest state-forest operator with 137,000 acres under lease, approached the DCNR in January with a proposal to lease several tracts that would allow it to consolidate its leasehold - filling in the "doughnut holes" in its current holdings.

The approach appealed to the DCNR's foresters, who say a single operator reduces the need for surface disturbances because fewer drilling locations and pipelines are required.

"If we put those parcels out for bid, we would essentially be doubling the impact on the forest," Quigley said.

The deep Marcellus Shale-drilling has created much discomfort among conservationists because it requires five-acre drilling locations to accommodate storage of water needed to hydraulically fracture the wells. But as operators improve their ability to drill horizontally to capture vast swaths of shale, they are able to drill more wells from a single location, reducing the number of well pads that need to be carved out of the forest.

State foresters calculated that Anadarko could tap into much of the new land from existing well pads on adjacent tracts, further reducing the surface impact.

"There's a real advantage to the Commonwealth of Pennsylvania by having a single developer for those areas rather than multiple operations," said Matt Carmichael, a spokesman for Anadarko, which is based in Houston.

But Anadarko also maximizes its investment in infrastructure, staff, and transportation by concentrating its holdings. "It helps us tremendously," Carmichael said.

Anadarko made a formal offer March 12, and the DCNR offered a counterproposal two weeks later.

Quigley said DCNR negotiators reminded Anadarko that the state received \$4,020 per acre on average in the January auction. "We didn't say we want you to come in at X - that's not the way this works," Quigley said.

Anadarko offered \$4,000 an acre for 10 of the 11 tracts, and \$2,000 an acre for one 5,711-acre tract in Moshannon State Forest that has less promising geology. Anadarko will pay royalties of 18 percent for gas sold from the wells.

DCNR accepted the offer April 21.

Anadarko is limited to building 72 well pads totaling no more than 360 acres on the 11 leases - about 1 percent of the land.

One of the tracts, a 4,200-acre parcel in Sproul State Forest in Clinton County, allows for no surface disturbance at all. The shale must be accessed entirely from wells drilled in neighboring lands.

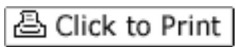
Tuma maintains the state got a fair deal because of the reduced environmental impacts, and Anadarko might have been the sole bidder in an open auction.

"Given the fact that some tracts might have been less attractive to other operators in a competitive bidding environment, it's possible we could have gotten less," he said.

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