MARCELLUS MONTHLY

"All the Fracking News that Fits"

THE WELLS TRUTH JOURNAL

JANUARY 2014

RRC 82.45 ▲ 31.2% **CNX** 37.84 ▲11.8% **EQT** 88.75 ▲ 50.4% **CHK** 27.11 ▲ 63.1%

What's News

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Law & Politics

Pennsylvania's Supreme Court upheld the 2012 decision of the Commonwealth Court, voiding the provisions of Pa. Act 13 which preempted local choice over fracking. The new ruling is even broader than the lower court's, finding that all levels of government are obliged to safeguard the state's environment as a "public trust" for future generations. [link]

Business & Finance

Anadarko Petroleum (APC) is now 'takeover bait' according to Bloomberg, and its likely acquisition price has fallen by as much as $9B, due to its legal exposure for environmental damages. APC had stranded those liabilities on the books of a now defunct subsidiary, but U.S. bankruptcy court has held that Anadarko can be forced to pay up. [link]

• **MarkWest Energy Partners (MWE)**, extending its pipelines from the Marcellus to the Utica play, raised $300 million cash though a secondary offering — at the expense of current holders of MWE, who lost 3% of the value of their stake. [link]

Shell CEO: Shale gas "Over-Hyped"

REGRET: Peter Voser, departing as CEO of Royal Dutch Shell, is sorry that Shell invested in U.S. shale gas. [link]

When a House is Not a Home, or a Nest Egg

PENNSYLVANIA: In the golden sunshine, to heart-warming music, TV ads showed middle-aged parents "keeping property in the family," having been saved by a Marcellus Shale gas lease. But the story has played out differently for many real-world homeowners.

A new study of property values quantifies what many skeptics knew in their bones: An unconventional gas lease is often just a first step toward giving up the property entirely, with or without financial compensation. [link]

The study of 1+ million home sales, over a 7-year period, finds that property values fall in proximity to nearby gas wells. Even properties with producing wells, whose values reflect the expected streams of royalties, don't maintain a price premium for long. (The study covered only single-family homes, so any effects of drilling on farming or on other uses of the property weren't considered.)

These findings complement anecdotal evidence and legal filings, which tell of fast production

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Gas 'Boom' Threatened by Uncontrolled Spills of Toxic Financial Results

NEW YORK: Not withstanding the best efforts of environmentalists, what finally breaks the back of the unconventional energy industry may be its destruction of 'shareholder value' and its ravaging of public and private assets.

So to ring in this new year (and our third year of publication) *Marcellus Monthly* focuses on the economic damage that fracking does to:

- Leaseholders
- Investors
- Communities
- The U.S. economy as a whole.

For almost everyone it touches, the shale gas business — even as *just* a business—is a bad deal.

The 'Greater Fool' Theory of Investing in Shale Gas

OKLAHOMA CITY: Tulip bulbs, dot-coms or subprime mortgages, the picture of an investment bubble is the same: soaring prices on the expectation of even higher prices yet to come.

Aubrey McClendon, who, until he fell to earth, was the high-flying Red Baron of the fracking industry, was famously **quoted**, "Buying leases for *x* and selling them for *5x* or *10x* is a lot more profitable than trying to produce gas...." His company, Chesapeake Energy (**CHK**) ran on two engines: (1) Fast-talking landowners into rock-bottom lease deals, and (2) hyping the potential of shale gas, to goose the value of those leases. After flipping one batch of leases, CHK ran that cash through the same process,

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INVESTORS *(Continued from page 1)*

again and again and again. Meanwhile, CHK's balance sheet reflected a mark-to-market value on the leases it still held, and served as collateral on debt financing to acquire even more acreage. In other words, CHK's "profitability" was the product of turning investors' cash into inflated drilling rights.

McClendon's personal greed brought him down, not CHK's business model. He's back in action, touting the Utica "play." At the same time, operators who are actually drilling on those Marcellus Shale leases struggle to meet their debt service, while the overhang of leases "held by production" drives the price of gas too low to cover costs. This is the drilling treadmill, also known as the "Red Queen" scenario, where operators must drill as fast as they can, to stay in the same place.

Still, the industry reports "profitability," based on valuing its reserves according to their expectation of future operating cash flows—on some day which has yet to arrive. The industry's saving hope is LNG export, and its immediate life-raft is "natural gas liquids" (although inflated pricing is baked-in to the NGL story, too).

Those—like Royal Dutch Shell—who won't, or can't, wait for 'someday' have begun marking down the value of those leases, giving their shareholders a bath.

The "Commonwealth" or the Common Wealth: Fracking and Society

HARRISBURG: In explaining its ruling against the "Commonwealth" litigants on Act 13, the Pennsylvania Supreme Court provided a catalog of the impacts of fracking on local communities: air and water pollution; traffic, light and noise disturbances; erosion of property values and damage to infrastructure; demands on 'first responders' and social services. Cornell University Professor Susan Christopherson has done primary research on all these and more.

Financial analyst Deborah Rogers has calculated that, while Pennsylvania is collecting some $200 million in "impact fees" from drilling, the cost of necessary road repair, alone, is over $2 billion. With time, the effects of 'diminishing returns' (declining per-well production, and the expansion of drilling onto leaner acreage) on government revenue can be staggering: In 2008, the City of Fort Worth, TX, received $50 million in revenue from 44 shale gas wells within the city; by 2012, there were 397 wells, yielding only $23 million: Nine times as many wells, for half the revenue.

Finally, the effect of unconventional fuel extraction on the national and international financial system has been explored by analysts at the London School of Economics and by independent researchers. They warn of (1) a write-down as large as $20 Trillion, dwarfing the paper losses of the 2008 crisis, due to repricing carbon fuel 'reserves' in the light of the climate crisis; and (2) an upper limit on the world's credit supply, which will be unable to meet the cash demands of extreme energy extraction.

This is what *unsustainable* looks like.

LEASEHOLDERS *(Continued from page 1)*

declines, short-changing on royalty payments, cancellations of homeowner insurance, and denial of mortgage loans to would-be buyers.

As the negative impact on nearby non-leasing real estate becomes more evident, leaseholders are being warned of possible lawsuits from their financially-strapped neighbors for "loss of enjoyment" of those homes as well as decline in their value.

As commonly written, a drilling lease simply allows the gas company to operate on the owner's land; it doesn't indemnify the leaseholder from any damage claims by others. So, while the driller takes off with the gas, the homeowner is holding the bag. Worst case, a leaseholder finds they can neither remain in the home, nor sell it for any acceptable price.

A Range of Resources

Please check out our 'Resources' page at **www.marcellusprotest.org/resources**, and follow us on Facebook (**MarcellusProtest**) and Twitter (**@Marcellus_SWPA**). Here is a sampling of our recent recommendations:

"The Big Choice": A clear description of the "stranded assets" problem: Energy companies carry on their books, as "proven reserves", as much as five times as much fossil fuel as the world's climate can absorb. Our market valuations of these companies are predicated on the belief that all of those reserves will, nevertheless, be sold and consumed.

"The Fracking of Lessors": An object lesson in the pitfalls of leasing your property, including (among others) "mechanic's liens" on your property, in favor of the driller, which encumber the home even without your knowledge.

Upcoming Events in January:

January 22 (Washington PA): Pennsylvania DEP **Public Hearing on 'Proposed Oil and Gas Regulations'** - Washington & Jefferson College, Rossin Campus Center, 6pm. NOTE: This is the only 'public hearing' in our area on these proposals, which have been described as "yet another gift to the oil and gas industry." To speak, you must register one week in advance (i.e., by January 15).

(Updated details and a more extensive list of events at **www.marcellusprotest.org/event_calendar***.)*

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