

MY BENESCH MY TEAM



Benesch Shale Industry Report

Quarterly
Summary
Q2 2013



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1. Top Issues and Considerations

Top Issues	Considerations
<p>Aubrey McClendon starts new companies Less than a month after stepping down as the CEO of Chesapeake Energy, Aubrey McClendon incorporated three companies: American Energy Partners LP, Arcadia Capital LLC, and McClendon Energy Operating LLC.</p>	<p>McClendon was very successful at the helm of Chesapeake for more than 20 years, and doesn't have any harsh non-compete conditions from his Chesapeake departure. McClendon is aggressively seeking \$2-3 billion in "initial equity capital," but the terms he put forth - a larger profit cut and more control than usual - might make investors reluctant to back him.</p>
<p>ODNR releases production report ODNR's production report shows Utica shale oil and gas production increased 93% for oil and 80% for gas since 2011, and producing wells went from two to 87, of which more than 12.8 Bcf of gas and nearly 636,000 barrels of oil flowed.</p>	<p>The numbers are seen as disappointing, although it is generally acknowledged that limited pipeline capacity is clouding the play's real potential.</p> <p>The play's wet-gas area has a high concentration of NGLs, which have a higher value than dry gas, and this might be what will characterize the Utica in the long-term.</p>
<p>Pipeline landscape starts to emerge The first phase of the UEO Midstream project is now in service, the second phase of Pennant Midstream's Hickory Bend project has begun, and details are starting to emerge on the routes the Nexus Gas Transmission and Bluegrass pipelines will take in Ohio.</p>	<p>As infrastructure plans and construction move forward, this will also bring a shift in land leasing activity from drilling rights to pipeline access rights. Additionally, a bill proposed by Rep. Mike Pompeo (R-Kan.) seeks to set a permit approval timeframe of 90 days for federal agencies that sometimes delay the permit application process for complicated pipeline projects.</p>

2. Shale Industry Moves

Production and extraction

- A total of 133 pipeline [projects](#) are said to be planned or in progress in Ohio, with **MarkWest Energy Partners** having 52, **Cardinal Gas Services** 50, and **Utica East Ohio Midstream** 14.
- **Chesapeake Energy** [named](#) Robert Douglas Lawler from Anadarko as its CEO to replace Aubrey McClendon. Chesapeake has also been [using](#) a new type of rig which cuts in half the time needed to move it from one site to another.
- **Antero Resources** [filed](#) with U.S. regulators to raise up to \$1 billion in an initial public offering of its common stock.
- **Devon Energy**'s board of directors [approved](#) a plan to form a publicly traded midstream master limited partnership. Devon also [promoted](#) David Hager, the head of its exploration and production business, as its chief operating officer.
- **EV Energy Partners** said it [intends](#) to form JVs with unnamed companies to determine how best to drill for oil in Stark and Tuscarawas counties in Ohio.
- **PDC Energy** [closed](#) the sale of its non-core Colorado natural gas assets to Caerus Oil and Gas for approximately \$185 million in net proceeds.
- **Anadarko Petroleum** [promoted](#) James J. Kleckner, formerly VP, Operations, to EVP, International and Deepwater Operations.
- Small conventional drillers are negatively [affected](#) by the oil and gas industry investing billions of dollars in eastern Ohio in shale gas production, as lease rates are increasing up to a hundredfold.

Private equity

- Former **Chesapeake** CEO Aubrey McClendon is trying to [raise](#) \$1 billion in capital from private equity firms and sovereign wealth funds for his new company, **American Energy Partners**.

3. Ohio Shale Infrastructure

Real Estate

- The Utica shale is [credited](#) with the upcoming construction of an 85-room, \$11-million Comfort Suites Hotel and separate banquet center that will accommodate up to 500 guests in Liberty Township.

Midstream

- Youngstown tradesmen are [busy](#) with the construction of the \$150-million **Pennant Midstream** gas-processing plant and pipeline networks in Springfield Township.
- **MarkWest Utica EMG** will [construct](#) a third 200-MMcf/d cryogenic gas processing facility at its Seneca processing complex in Noble County.
- Rail is [filling in](#) for pipelines to move large volumes to refineries and processing facilities. Specifically, the **Columbus & Ohio River Rail Road's** mile-long siding to a loading facility and terminal in Scio is seen as a [game-changer](#) in eastern Ohio.
- **Crosstex Energy** [agreed](#) to invest another \$25 million in E2 for a third natural gas compression and condensate stabilization facility in the Ohio River Valley.
- **Williams Partners** and **Shell** [agreed](#) to launch **Three Rivers Midstream**, which will invest in infrastructure serving Marcellus and Utica Shale wells.
- Project management specialist **Gulf Interstate Engineering** [won](#) a contract in Ohio to provide engineering and design work for **Marathon Petroleum's** pipeline project in the Utica.
- French pipe manufacturer **Vallourec** [debuted](#) a pipe mill facility at their Youngstown location.
- **Crestwood Midstream Partners** and **Inergy** [signed](#) definitive agreements to create a midstream partnership with a total enterprise value of approximately \$7 billion.

3. Ohio Shale Infrastructure

Downstream

- **Kalmbach Feeds** and **TruStar Energy** are [building](#) a public CNG fast-fill station in Wyandot County as part of a new venture, Kalmbach Clean Fuels, that will support Kalmbach's CNG-powered feed distribution trucks.
- It is said that a lucrative option for dealing with condensate in the Utica could be to [export](#) it to Canadian oil sands where it is in high demand as a blending agent.
- The Central Ohio Transit Authority [released](#) its first 30 CNG buses for use.
- The Akron City Council [approved](#) plans for **J Rayl Transport**, a regional trucking company, to add a CNG filling station and truck terminal to its property.

Supply chain

- The Muskingum Watershed Conservancy District [inked](#) deals to sell water to **Antero Resources** and **Gulfport Energy**. It also [approved](#) a short-term water contract to sell water from Piedmont Reservoir in Harrison and Belmont counties, and is looking into whether water could be sold to drillers from six more of its reservoirs. Also, the Buckeye Water District will [supply](#) at least 30 million gallons of water per year to R.E. Gas Development, a subsidiary of **Rex Energy**.
- **Matheson Valley** is now servicing a new industry thanks to increased shale development and a new [interest](#) in the welding trade, providing a one-stop shop for supplies, gases, and safety gear.
- **D&I Silica**, the biggest independent sand distributor in the Marcellus and Utica shales, will be [acquired](#) for \$125 million by Texas-based Hi-Crush Partners.
- **Westerman**, a Worthington Industries division supplying oil and gas equipment, is planning to [expand](#) in Fairfield County thanks to a tax incentive from the Ohio Tax Credit Authority.

4. Government

Regulatory

- The Ohio Supreme Court voted to review the *State of Ohio ex rel. Jack Morrison, Jr. v. Beck Energy Corp* case, in which the Ninth District Court of Appeals confirmed the sole and exclusive authority of the ODNR over the regulation of oil and gas well production statewide.
- The ODNR issued two more unitization orders pursuant to R.C. 1509.28, bringing the total number to four since the beginning of the Utica Shale play. Both orders are for BP units. The ODNR also published guidelines to clarify the application process that is required before the division chief of ODNR's Oil and Gas Resources Management can make a ruling on unitization applications.
- The Youngstown Community Bill of Rights, which included a fracking-ban charter amendment, was voted down by residents 57% to 43%.
- The Coast Guard sent to the White House's Office of Management and Budget a proposal to allow the barging of fracking wastewater. If the plan is pushed forward, it would become a proposed rule open for public comment.
- The Laborers' District Council of Ohio is protesting road use maintenance agreements made between the Washington County commissioners and energy companies because they do not include prevailing wage measures.

4. Government

Economic Development

- *Chief Executive Magazine* [ranked](#) Ohio as one of the nation's most improved states to do business in 2013, as it climbed up 13 ranks from last year to 22nd overall.
- The Trumbull County Planning Commission, the Youngstown Neighborhood Development, and the Youngstown/Warren Regional Chamber are [working](#) with city officials to study growth potential along U.S. Route 422.

Environment

- ODNR [ordered](#) Harch Environmental Resources to cease operations in Ohio after evidence was found that the company was illegally disposing of oil field waste. Gulfport Energy contracted with Harch Environmental to dispose of the waste that was illegally dumped.
- The U.S. Department of the Interior [revised](#) its proposal to regulate fracking on public and Indian lands. The proposal would improve integration with existing state and tribal rules, and increase flexibility for oil and gas producers.
- The EPA Independent Scientific Advisory Board has [formed](#) the Hydraulic Fracturing Research Advisory Panel to review forthcoming EPA research on fracking.
- The Department of the Interior [issued](#) a 171-page regulation proposal for fracking on federal lands to provide more guidance on how trade secret claims will be handled. It includes an expanded set of cement evaluation tools for ensuring the integrity of cement jobs and preventing fluids from migrating into usable water zones.

5. Schools/Training

- Lawmakers [signed off](#) on Stark State College's plans to buy a building in downtown Canton to house its growing shale oil and gas programs. The \$4.9-million purchase will consolidate the college's energy industry training in a location that will include gas tank batteries, pump jacks, and natural gas collection and distribution systems.
- Zane State College [hosted](#) an opening ceremony for its oil and gas land laboratory, which gives students a hands-on approach to learning about Ohio's O&G industry.
- Antero Resources will [lease](#) 63 acres from Barnesville Exempted Village School District, offering the same terms it is giving landowners - \$5,700 per acre plus 20% of production royalties.
- The Minority Business Association and representatives from the oil and gas industry [held](#) a joint event in Stark County to discuss connecting the growing natural gas industry with the minority-owned businesses of Stark County.