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New York 'Hillbillies' Sell for \$5,500-Acre Amid Shale-Gas Boom  
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By Jim Efstathiou Jr.

April 12 (Bloomberg) -- A natural-gas rush that created overnight millionaires in Pennsylvania may sweep across New York as the state prepares to lift a moratorium on drilling in what may be the world's second-largest gas field.

Regulators expect to release draft rules for work in the Marcellus Shale formation this summer, Joe Martens, commissioner of New York's Department of Environmental Conservation, said at his confirmation hearing last month. The state temporarily banned hydraulic fracturing, the high-pressure injection of water and chemicals to free gas from rock, over concern that the process may taint drinking water.

Chesapeake Energy Corp. and Talisman Energy Inc. are among companies that have already purchased drilling rights in New York, with the promise of royalties to property owners once gas is produced. Kate Sinding, a senior attorney with the New York-based Natural Resources Defense Council, an environmental organization, said hydraulic fracturing, or fracking, holds out the allure of riches as well as environmental risks.

"There are people who have very legitimate economic concerns for whom this represents the possibility of a windfall," said Sinding, who said her group will sue to block drilling if the rules fall short. "That cannot be allowed to come at the expense of drinking-water supplies and clean air and safe communities."

Companies have paid New York property owners as much as \$5,500 an acre for drilling rights, according to Dan Fitzsimmons, president of the Joint Landowners Coalition of New York, a group that promotes drilling. Lease agreements also call for royalties from 12.5 percent to 21 percent of the value of gas extracted, Fitzsimmons said.

#### Pet Cemeteries

In Pennsylvania, where 2,650 shale-gas wells have been drilled, land values have soared and royalty checks often reach tens of thousands of dollars a month, according to Al McMichael, a Binghamton, New York, resident who has leased properties in both states to Chesapeake. McMichael, who owns pet cemeteries in New York and Pennsylvania, expects drilling on his Pennsylvania property to begin shortly.

"It sort of reminds me of 'The Beverly Hillbillies,'" McMichael said, referring to the 1960's television comedy about a poor rural family that struck oil on their land and moved into a California mansion. "You have a lot of rural people that go from being farmers to being multimillionaires."

Land owners, local businesses and municipal agencies such as school districts that would reap taxes from gas production all stand to gain from drilling. Alberto Zacchino, a New Jersey resident who bought a second home in the Town of Windsor, New York, nine years ago for \$90,000, said it comes down to the jobs drilling would generate.

Zacchino said he leased drilling rights on 68 acres to Williams Cos. for \$180,000 in 2008.

#### Waiting for Jobs

"Ninety percent of the people up there don't own a gas lease," Zacchino said. "Most people are waiting for jobs. They're hoping the economy is going to boom."

The New York environmental conservation department is reviewing more than 13,000 comments on rules released in 2009, said Michael Bopp, an agency spokesman. Before leaving office, former Governor David Paterson, a Democrat, said a new draft should be complete by about June 1.

A spokesman for New York Governor Andrew Cuomo, also a Democrat, didn't reply to a request for comment. During the campaign last year, Cuomo said fracking would create jobs, "but only if it is safe."

#### Second-Largest Field

The Marcellus Shale, stretching from Tennessee to New York, may hold 490 trillion cubic feet of gas, enough to heat U.S. homes and power electric plants for two decades, according to Terry Engelder, a professor of geosciences at Pennsylvania State University in State College. That would make it second only to South Pars, shared by Iran and Qatar.

"Pennsylvania is booming economically, but they made a lot of mistakes" in regulating fracking, New York state Senator Tom Libous, a Republican who represents potentially gas-rich towns near the Pennsylvania border, said in an interview. "New York will learn from those mistakes."

Libous, who is from Binghamton, about 180 miles (290 kilometers) northwest of Times Square in Manhattan, said he is optimistic permits will be issued this year.

Drillers would have to provide a wastewater disposal plan identifying treatment plants that can process fracking fluids, according to the 2009 version of New York's draft rules. Injected fluids that return to the surface have spilled into groundwater in Colorado. In Dimock, Pennsylvania, Houston-based Cabot Oil & Gas Corp., agreed to a \$4.1 million settlement after the state investigated reports of gas in water wells.

#### 'What's it Worth?'

The prospect of quick riches hasn't swayed everyone. Those without property or who want to preserve the region's rural character may end up surrounded by derricks on neighboring land, enduring the noise and disruption of industrial activity without the benefits, said Don Stark, who owns 16 acres in Binghamton and hasn't decided whether to allow drilling.

"There's going to be people that are going to make money on this, and there's going to be people that are really upset about it," Stark said. "I could stand to get \$80,000, \$90,000 plus the royalties, but if they trash your land, what's it worth?"

#### Home Prices Rise

Home values are rising in Binghamton, bucking a national trend of slumping prices, according to the National Association of Realtors. The median sales price of existing single-family homes in Binghamton was \$136,300 in last year's fourth quarter, up 24 percent from the same quarter in 2007. The national average fell 17 percent in the period.

Some drilling supporters say they were burned by the gas rush. Randy Williams, supervisor of the Town of Windsor, said he signed a lease in 2007 for "a lousy" \$150 an acre before the rate jumped as high as \$5,500. His rights were later sold to Chesapeake, which has about 1 million acres under lease in New York, according to Jim Gipson, a company spokesman.

Gipson declined to say how much Oklahoma City-based Chesapeake has invested in New York properties or what the company plans for the state while regulations are pending.

Fitzsimmons, who lives in Conklin, New York, began organizing property owners in 2007 when a gas company offered his mother \$150 an acre to drill on the family farm. The coalition Fitzsimmons now leads helps negotiate better lease terms.

#### 'Low-Balling' Elderly

"They were going in and low-balling a lot of the seniors that didn't know what was going on," Fitzsimmons said. "It was robbery all around because in other places they were paying \$1,500."

In Pennsylvania, properties on the Marcellus Shale have climbed in value five to 10 times since drilling began in 2008, said Bill Haidinger, co-owner of a real estate agency in Endwell, west of Binghamton.

One home in Susquehanna County, Pennsylvania, with 200 acres that Haidinger has listed for \$4.5 million, may have been worth \$450,000 in the pre-gas market, he said.

"This guy already has the property divided into four units -- two producing, a third coming on line in the next two months and the fourth later this year, Haidinger said. "He is estimating conservatively \$500,000 a year in gas royalties."

New Yorkers should wait until state regulators act before making deals with gas producers or land brokers, Haidinger said. He is preparing agents for an increase in property sales later this year.

"It's only going to be worth more once the moratorium is lifted," Haidinger said. "I would see no reason that there would be any difference from Pennsylvania."

#### Shale's Growing Role

U.S. shale-gas production reached 4.87 trillion cubic feet in 2010, or 23 percent of total gas production, up from 0.39 trillion cubic feet in 2000, the Energy Department said in an April 5 study. Rising production of shale gas has helped lower natural gas prices and reduce imports, the study said.

The U.S. must tap gas reserves, President Barack Obama said in a March 30 speech on energy. Obama said he directed Energy Secretary Steven Chu to oversee work by government, industry, environmental groups and states to develop recommendations on the use of fracking chemicals "without polluting our water supply."

``New York state natural gas has a proven safety and environmental track record,`` the Independent Oil & Gas Association of New York, an industry group, said on its website.

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