Testimony of Jackie Root

Board Member, National Association of Royalty Owners

U.S. House of Representatives

Committee on Agriculture

Room 1301, Longworth House Office Building

Washington, DC

April 13, 2016

Hearing on "Energy and the rural economy: the impacts of oil as gas production."

Chairman Conaway, Ranking Member Peterson, members of the Committee, it's an honor to speak with you today regarding this important issue. Thank you for the invitation.

I am Jackie Root from Lawrenceville, Pennsylvania. I speak today on behalf of the National Association of Royalty Owners (NARO) where I serve as the Pennsylvania state chapter president. Even though our producing minerals may be in Arkansas, New Mexico, North Dakota, Oklahoma, Pennsylvania, Texas, Wyoming or any of the 33 producing states NARO members live in all 50 states. NARO has been educating and advocating for mineral/royalty owners since our original incorporation 35 years ago in 1980. There are an estimated 8.5 to 12 million citizens who receive royalty income from the production of their private property – their oil and natural gas minerals. From a member survey a few years ago the average NARO member is 60 years old, a widow and makes less than $500 per month in royalty income.

Of all the wells ever drilled around the world, the vast majority have been drilled in the United States – a nation that values private ownership of minerals and that also encourages both risk and the pursuit of profit. The United States is the only former colony that upon achieving independence, awarded the ownership of minerals to private citizens instead of to the state. This uniquely American model was suggested by Thomas Jefferson. His concept has helped make us a strong nation and it today is enabling America's rise to become the world's dominant energy producer.

About 70 percent of the mineral estate in the lower 48 states is private property owned by individual citizens. From a study conducted by Montana State University in 2012 it was estimated that roughly 77 percent of oil and 81 percent of natural gas produced onshore was produced on private property (not state or federal property). Since 2012 and the continued development of the shale resources I would assume these percentages of production on private property have only increased in the past three years. From that same study we find that an estimated $22 billion in royalties was paid to private mineral owners in 2012. Let's not forget that according to the Energy Information Administration the average price for oil is about 59% less than in 2012 and natural gas is about 25% less. So that $22 billion paid in 2012 today would be at best $16 billion and could be as low as $9 billion. That is a significant "hit" on the individuals, like myself, who rely on this income for our livelihood.

We have provided additional information on mineral/royalty ownership and some of the impacts we see across the country with the current price downturn for oil and natural gas in our written testimony so I would like to spend the rest of my time discussing my personal story.

My husband Cliff and I are first generation farmers; dairy was our commodity for 35 years shifting to a cow/calf beef operation in 2009. For 24 years, in a crop field dubbed "the gas well field," we mowed, planted and harvested around a steel pipe marking the site of a natural gas exploration well drilled and plugged in 1948. In 2000 a landman approached us to lease that land once again for possible exploration, after five years of research, multiple offers, visits from 11 different landmen and intensive networking with neighbors, we signed a lease and now host a producing Marcellus Shale well on our farm, just twelve hundred feet from that old pipe. Our well was completed in 2008, in 2009 and 2010 thirty-one more wells were completed on twenty pads within our township. I estimate that over seven hundred royalty owners receive checks each month in just our township including farmers, retirees, widows, young couples, businesses, churches, municipalities and cemeteries. Like many farmers we have used this income to pay off debt, change enterprises, help with college expenses, fund retirement accounts, catch up on travel and maybe buy a horse or two. The constant stress of fluctuating commodity prices and unpredictable weather is softened a bit with additional income from leasing, royalties and pipeline right of way. Over the long term I believe natural gas development will actually preserve our precious open space, successful farmers will farm the land rather than subdivide it. This income also finds its way into our local economy making life a little better for the entire community. I can quickly think of many friends and neighbors so thankful for extra income that was life changing and it is not all about instant millionaires. Entrepreneurs also seized opportunities and created new businesses, I started R&R Energy Consulting and have offered mineral management services to landowners for over 10 years. Current market conditions have curtailed new drilling projects and the lack of new pipeline capacity has had a dramatic effect on natural gas prices, this time in 2012 we received $2.73 per mcf compared to just $1.48 this month. Royalty income is down, leasing is sparse, layoffs in the oil patch now include many of our local folks and many businesses created in the boon are struggling. Though we do not produce oil in our little corner of the world, we appreciated the July 2015 hearing this Committee conducted that led to repeal of the oil export ban, recognizing the need to participate in world markets. Trading of LNG and ethane in world markets will be just as important to the Northeast with production of both wet and dry natural gas. Natural gas development in our township and other townships just like it across Pennsylvania has been a real success story, we hope that our leaders will support energy policy that will keep us moving forward.

To illustrate the far reaching impacts of each and every oil or gas well: Thanks to the efforts of one of our members, we recently took a snap shot of one "marginal" oil well (producing less than 15 barrels of oil per day) in Grady County Oklahoma. This one little well has over 300 individuals in 46 states receiving royalty payments from its production. While no one royalty owner in this well is getting rich numerous individuals anticipate that check that may come only once per year.

Just to give you an idea of how many citizens are royalty owners, if you take our membership in each state as a percentage of a total and then multiply by the estimated 8.5 million royalty owners (remember could be as high as 12 + million) you get a rough idea of how many royalty owners live in each state. And here are those numbers:

AK everyone	AL 33,150	AR 255,000	AZ 144,500	CA 510,000
CO 654,500	CT 17,000	DC 17,000	DE 2,550	FL 161,500
GA 85,000	HI 8,330	IA 33,150	ID 35,700	IL 76,500
IN 27,200	KS 147,900	KY 11,050	LA 125,800	MA 30,600
MD 35,700	ME 5,525	MI 44,200	MN 47,600	MO 110,500
MS 39,100	MT 47,600	NC 67,150	ND 24,650	NE 19,550
NH 13,600	NJ 47,600	NM 161,500	NV 44,200	NY 127,500
OH 30,600	OK 1,691,500	OR 51,000	PA 119,000	RI 5,525
SC 22,100	SD 5,525	TN 59,500	TX 2,975,000	UT 39,100

VA 85,000	VT 2,550	WA 39,100	WI 39,100	WV 19,550
WY 30,600		Total nationwide: 8,440,755.		

Remember, these are estimated numbers of *royalty* owners. The total number of *mineral* owners is much greater, as vast areas are unproductive or have not yet been explored and developed.

Here is example of the impacts to a State's economy from royalty's paid on oil and gas production: If we take the oil and gas produced in Oklahoma in 2014 and multiply that production by West Texas Intermediate (WTI) for crude oil and Henry Hub prices for natural gas and assume an 18% average royalty paid we get $3,995,860,145 and using the same assumptions for 2015 we get $2,607,332,684. That is about a 35% decrease in dollars paid to the estimated 1.6 million individuals who receive royalty on Oklahoma production.

Let's apply the same assumptions to Chairman Conaway's home state of Texas. We find that in 2014 an estimate of royalty paid to over 2.9 million people (According to Black Bart Data LLC in Austin, TX the number of Texas royalty owners is over 4 million.) could have been as much as $19 billion and even though production was higher in 2015, due to reduced WTI price, the estimated royalty paid to the same 2.9 + people would have been about $11 billion. That is about a 43% decrease in royalties paid. In July of 2015 the Texas Scottish Rite Hospital for Children reported that it had received about $500 million in royalties over the past four years from donated mineral properties located in West Texas. As with other examples we assume the price drop in 2014-2015 of 40%-60% has reduced the hospitals income proportionately as well.

In another example of local impacts, one of our NARO members in Wyalusing, PA, Jim Souto, Senior Vice President, Chief Administrative and Risk Officer for PS Bank used state Department of Environment Protection (DEP) reported production numbers and produced the following results: Prior to 2008, Bradford County Pennsylvania had no producing gas wells. As of January 2016, we now have 971 producing (Marcellus Shale) gas wells that yield more than 62 million units of gas per month. Using a royalty rate of just 12.50% and an average price of gas of just $1.00, this generates an estimated $7.75 million in royalties (paid to royalty owners) in my county each month. On an annualized basis, more than $93 million in royalties are paid to individuals, schools, churches, DCNR, PA Game Commission, etc. in Bradford county each year. Jim said, "If you include the production of gas in neighboring counties, one realizes that royalty income is very important to our part of the state." Notice that Mr. Souto assumed a $1.00/mcf price for the gas produced. What if that was $2.00 or $2.66 as EIA estimated prices for 2012 or even $4.00? The impacts the natural gas industry has on this rural county and everyone who lives there are dramatic to say the least.

We can see positive impacts from a year or two ago on home prices: Energy In Depth (EID) reported that median home values rose 4.4% in Washington County Pennsylvania in February 2015 over the previous year; and in Johnson County Texas by 10.5% and 15.3% in Weld County Colorado over the same time period. We can only speculate on what has happened in these Counties home values as oil and gas prices have fallen up to 59% (from 2012) and leasing and drilling activity as all but ceased.

You can go around the country and find impacts to rural America from oil and gas production. Here are some quotes from a public meeting on what oil and gas production means to a Colorado rural county: Sean Conway, at-large Weld County Commissioner - "What our oil and gas opportunities here in Weld County allow is the family farm to stay in the family." Bill Jerke, a farmer, mineral owner, and former Weld County Commissioner - "It seems that oil and gas has become agriculture's best friend over the last 20 or 30 years here in Weld County. We have ups and downs all the time in agriculture. There's nothing more helpful than being able to go to that mailbox and getting a royalty check. And that helps keep more people in agriculture, and more people healthy economically, than crops, frankly, and livestock prices." Don Shawcroft, President of the Colorado Farm Bureau- "Weld County is number one in the state for agriculture and number eight in the nation. This is not in spite of oil and gas but in part because of it."

Everyone has heard stories from North Dakota over the past few years so let's look at some of the reported impacts to Williston, once considered the epicenter of the boom. Williston has lost at least a quarter of its population, which was as high as 42,000 in 2013. Unemployment claims in Williams County, where Williston is located, have tripled. The county's taxable sales revenue in the third quarter of 2015 dropped by more than 44 percent from the same period a year earlier.

But the city also has a new $70 million recreational center that the park district director says is among the largest in the nation. Construction is nearly finished on a $60 million high school and a $115 million wastewater treatment plant. A $160 million truck bypass opened last year, and the city has about half the funding lined up for an expanded, relocated $245 million airport, according to Mayor Howard Klug.

North Dakota's boom was epic. Thousands moved to Williston, nearly tripling the population in five years, pushing rental prices to the highest in the U.S. and prompting the construction of temporary "man camps," among other measures. Streets, stores and restaurants were overwhelmed. Unemployment dropped to 0.7 percent. The city's economic development department reported that the average salary was nearly $71,000 a year.

In June 2014, oil peaked at $107.95 a barrel and started dropping, largely because the global supply was increasing while demand waned. Several factors contributed. U.S. production has risen significantly in recent years. Meanwhile, the 13-country Organization of the Petroleum Exporting Countries, led by Saudi Arabia, has balked at cutting oil production to drive up prices because OPEC wants to maintain or grow its share of the market, according to the U.S. Energy Information Administration. In addition, Western sanctions on Iran have been lifted, bringing its oil to market. And previously strong economies in China, India and Brazil slowed, easing oil demand there.

As we have demonstrated, the payment of oil and gas royalty for production on private property is of untold benefit and importance to millions of American citizens including millions of rural residents. The price collapse that began in 2014 and continues today has resulted in royalty payments to individuals decreasing by as much as 60% from 2012. When you couple that with the nearly 80% decrease in drilling rig activity and little to no lease bonus payments, rural communities who just months ago were awash in good paying jobs, increasing property values, flush state and county tax coffers are now witnessing stacked drilling rigs, company and field operations layoffs, development projects put on hold or canceled and little to no leasing activity.

The hardship that reduced commodity prices have placed on the oil and gas industry, service industries, federal state and local tax collections and private royalty owners are a result of the free market system that we NARO members believe strongly in. We therefore ask this

Committee to please keep us in mind when considering what could become harmful federal policies like removal of the percentage depletion tax deduction that royalty owners have had the ability to utilize since the 1920's. We further point out that there are those (even members of Congress) who would deny our private property right to develop our private property mineral estate as they have stated all fossil fuels should be "left in the ground". We are continually bombarded with activists' operating in our states and communities seeking to prevent or deny the development of our private mineral property without "just compensation" that the U.S. Constitution guarantees. We would be happy to enter into the debate on the realities of supporting our economy, lifestyle, health, sanitation etc. etc. without the production and consumption of our oil and gas assets but that is probably a different hearing.

Thank you for the opportunity to present the collective views of millions of private property mineral owners. If we may provide any additional information or be of service or assistance to the Committee, please let us know.