

PRESIDENT'S MESSAGE

Greg Kozera – Virginia Oil and Gas Association President

With all of the activity in the Marcellus and Utica shales in the northeast Virginia has seen a decrease in activity due to operators spending less on traditional reservoirs in favor of the more lucrative Marcellus. Conventional activity is also more sensitive to natural gas prices which have been hovering in the \$3.50 range. In spite of this natural gas production in Virginia increased. Our VOGA membership also increased 12% in 2011. For the first time ever we have over 100 member companies.

In Virginia we produce very little oil and 82% of our natural gas production is from coalbed methane. Total natural gas production increased 5% to 147 BCF. We don't have the high volume shale wells like the Marcellus so natural gas prices are a major issue for our members. One of our major successes in 2011 was a bill that we were able to get passed and signed into law by Governor Bob McDonnell that gives utilities enhanced rates of return on power generation projects that use Virginia produced coalbed methane. We worked closely with environmental groups to get this bill passed. It was approved unanimously. The closure of a number of outdated coal fired power plants has already been announced. Most of these will be replaced with natural gas fired power plants. We are also continuing to promote natural gas vehicles. We are seeing an increase in the use of natural gas for fleets. The City of Richmond has purchased 25 natural gas buses. Anything we can do to increase demand for natural gas has the potential to improve natural gas prices for our member companies.

When the movie *Gasland* was shown in Abingdon in March it drew a large turnout. VOGA achieved a major communication/ public education success. Over one-third of the audience consisted of our members in their work clothes. We had an informational booth where our members passed out information and answered questions. We were also able to have a speaker on the panel that followed the film. I received a call the next day from one of the officials of the college who said, "I don't know how you did it but those people came here mad but they didn't leave that way." We know that we can communicate our truths effectively and change minds. Having a strong turnout by our field people was critical to our success. We didn't just have the managers and executives there. In April Virginia Public Radio actually did a fair and balanced three part program on drilling and hydraulic fracturing in Virginia. We took their Bureau Chief on location to a frac job as part of the story. She observed 2 frac stages and was fascinated by what we do. Unfortunately National Public Radio didn't pick up the story.

In addition to gas prices our members' biggest concerns are potential increased Federal EPA regulations on air and water pollution or possible regulations and federal control over hydraulic fracturing. Federal regulations always bring increased cost; add time and delays to the drilling and completion process. Many times they actually increase global pollution as industry leaves the US and moves to countries where there are few if any environmental regulations. For example the highest levels of mercury in the US are on the WEST Coast. This mercury wasn't produced here but comes to us from places like China and India. The Virginia Division of Oil

and Gas does a good of regulating our industry. They are firm but fair. Since they live in Virginia they have more concern for the environment and Virginia jobs.

In 2011 we learned that our public relations and education efforts (or the lack of them) can have **national** implications probably because we are so close to Washington, DC. When an out of state non-VOGA producer applied for a Marcellus permit in Rockingham County (where there is currently no oil or gas production) the local people were up in arms because of all the misinformation they had heard about Marcellus drilling and hydraulic fracturing. We almost had bills introduced in the legislature that would have had devastating effects on our members in the 7 Virginia counties that do produce oil and gas all from this one incident by an out of state non-member. It took a significant public education effort and education of the delegates and state senators by VOGA to get these bills killed.

However, later in the year when the George Washington National Forest (that is in Rockingham and several other Virginia counties) presented its new land use plan it proposed banning drilling and fracturing horizontal wells. Drilling and fracturing vertical wells was acceptable. The George Washington National Forest by its geology is not in a potentially productive area. But if this land use policy was implemented anti-drilling groups could use the George Washington National Forest example to ban horizontal drilling in *all national forests and even on Federal lands*. We worked with Virginia Deputy Secretary of Natural Resources Maureen Matson to get her information before she testified before the Congressional Committee. We also wrote public comments. The IPAA and other industry groups have also been involved on this critical issue. As of this writing no decision has been made by the US Forest Service.

The VOGA Public Relations Committee has been very active running pro industry ads, providing industry speakers for public and civic group meetings, responding to op-eds and situations such as *Gasland* and Rockingham County. In December the VOGA PR committee hosted an Open House at the *Heartland* in Abingdon. We set up stations for drilling, ground water protection, fracturing and even history of the oil and gas industry in Virginia. The Virginia Division of Oil and Gas also had a station. It was a very low key environment where the public could visit one-on-one with VOGA people and ask questions without the intimidation of being in a large public meeting. Our public relations efforts have been very successful in our seven producing counties.

In 2012 our challenge now is in areas *outside* of the 7 producing counties in SW Virginia, like Rockingham County. Most of these areas have never seen a rig or a frac crew but they can have an effect on Virginia politics but more importantly they can affect Federal politics like we saw at the George Washington National Forest. Unfortunately VOGA doesn't have the funds, time or personnel to cover a large state like Virginia. One way we can do this is via the internet. VOGA is implementing a social media campaign to combat negative information and get out positive information about the natural gas industry. We expect this to have a positive effect in Virginia that will also help our industry around the country since the internet knows no bounds. We have plans to further expand our public relations and public educational efforts in 2012. We also have an annual program at our Summer Meeting to educate our spouses on industry issues. We realize that they usually touch more non-industry people than we do.

VOGA's membership grew 12% in 2011 because we reached out to the vendors of our producers. We helped them to understand that their business is closely tied to the success of our producers. This additional financing and broad based support has helped us with our legislative and public relations efforts. We expect further growth in 2012. Led by the Membership Committee this has been a real team effort by the VOGA membership.

We have come to understand that we are environmentalists. In addition to what we do as individuals our industry truly improves the environment of our **planet**. In Virginia the coal is fraced ahead of mining and the gas is produced. This makes coal mines safer. Since this process was started in 1984 there have been no fatalities due to mine methane explosions. Millions of tons of methane have become an energy source rather than being vented from mining operations to the atmosphere. Natural gas is replacing older less efficient and polluting coal fired power plants, natural gas vehicles are cleaner than gasoline vehicles and we are seeing their increased use. Maybe most important the increased production of domestic natural gas has eliminated potential imports from places like Russia and Iran who have no environmental regulations and replaced them with natural gas produced under our environmental regulations. Thanks to production from reservoirs like the Marcellus, the Utica and other shales we are seeing resurgence in the steel industry and soon the chemical industry. Dependable and affordable energy can keep companies here and bring others home. Pollution overseas eventually affects us here. VOGA has found that we can work with true environmentalists who really care about our planet. After *Gasland* one non-industry environmentalist in the audience stood up and voiced his support of us. I don't believe that a true environmentalist can be against our industry and the responsible development of natural gas. There are many other groups that claim to be environmentalists but we are finding that they have other agendas. Some are just anti development.

With a growing strong and active membership VOGA is in even better shape to meet the challenges we will face in 2012. We will build on our past successes so that our members can continue to flourish in Virginia and we can continue to provide the energy Virginia and our nation needs.