



Mr. Chairman, members of the Senate Urban Affairs and Housing Committee and guests. Good morning, I am Michael Narcavage, Manager of Corporate Development with Chesapeake Energy Corporation, one of the largest natural gas producers in the country. Thank you for the opportunity to again offer testimony to the committee and to update you on our progress since we last appeared.

When we think of issues relating to urban affairs and housing, Towanda and the Northern Tier might not be the first place that comes to mind, but with the tremendous economic opportunity unfolding due to the development of the Marcellus Shale, this continues to be a timely and appropriate discussion.

As we are all aware, the Northern Tier of Pennsylvania has become *the* focus for many in our industry; and the entire region, even at this early stage of Marcellus Shale development, has experienced growth in many different ways. Increased investment driven by the natural gas industry has resulted in the growth of new businesses locating in the area, the expansion of many existing businesses, increased job opportunity and a greater need for residential and commercial real estate to serve this expansion.

In January 2009, Chesapeake and our subsidiaries employed about 250 people in the Commonwealth and as of today we employ more than 1,100. In the earliest stages of our company's move to this region, most of our workers came from other operating areas throughout the country. This early stage development with Chesapeake and for the industry broadly, resulted in an increased demand for housing as many of our employees can testify.

As we have established ourselves locally and as our level of activity has increased, so has our ability to hire local workers. Our Towanda field office, and other places of business in the region, have grown from the initial out-of-state personnel to an increasingly locally hired, locally trained workforce. In just the last several months, we have hired dozens of local workers to join our Land Department, Corporate Development Department, Drilling Construction teams, our Midstream, or pipeline group, and our Operations staff. All of our local production personnel are from the Northern Tier and we have recently hired and trained over one hundred local workers for employment with our subsidiary NOMAC Drilling Corporation. This momentum will continue.

Certainly as additional investment is made and as we continue to grow as a company, we fully expect that demand for real estate for both housing and commercial use will continue to expand.

Chesapeake has invested over \$1 billion dollars in private capital since 2008, largely concentrated on Marcellus Shale development in northern Pennsylvania. Since 2009, we have injected over \$350 million into the local economy in payments to Pennsylvania based businesses, and our level of activity in the region is expected to grow from our current 21 drilling rigs to approximately 24 by the end of 2010. With more economic activity come more jobs, both directly with our company, and with the thousands of personnel that support our operations through contracted service and material providers. This growth will likely continue to drive high demand within the local housing market for some time to come.

Have we as a company and our workers faced challenges as we've grown? Certainly, but the challenges we've faced in Bradford and nearby counties have certainly been manageable and we are continuing to invest and work on solutions that will meet our needs and relieve certain burdens that a sharp uptick in housing demand might impose on the community.

A prime example of this is the housing of workers that operate our drilling rigs.

In order to accommodate the initial influx of personnel that was needed in late 2008 and through 2009 to enable the growth of our drilling program, we leased most of the rooms at the Towanda Motel in the beginning of 2009 for the temporary housing of many of our drillers. Later in 2009 and, currently, this same facility has been leased in total by Chesapeake.

We are proactively addressing this demand with the construction of our \$6.7 million residential facility in northern Bradford County. This facility will also serve as our Eastern U.S. Training Facility for our subsidiary NOMAC Drilling so it will serve two very important purposes – much needed housing for workers from our other operating areas and as our training facility for new local hires as we continue the transition to a more localized workforce. We expect this facility to be ready for occupancy on or about November 15th. As a result we will no longer need to lease the Towanda Motel. This is good news for the hotel and visitors as it frees up much sought after lodging space. In fact, the owners of the Towanda Motel have sent letters to their “regular” guests that stay at the Motel during hunting season informing them there will rooms available.

As our company testified earlier this year at your field hearing in Wysox, we've made other similar investments as well – in 2009 we invested \$50,000 in improvement to the Valley Inn in Athens to accommodate housing needs of employees. We leased a senior citizens home that had been closed for some time and have leased rooms in other hotels in the Towanda and Athens /Sayre “Valley” area. In 2009 we spent \$1.14 million on housing for our employees and we estimate that we will spend an additional \$1.127million on housing needs this year, not including any of the other projects mentioned. Please note that these figures do not include overnight trips of employees from Oklahoma and West Virginia that make frequent trips to the Northern Tier to conduct business meetings. We have found these employees have to find hotel lodging in places like Elmira New York, Scranton, Clarks Summit and Williamsport because of the lack of available hotel accommodations. And Williamsport can be tough!

On the commercial side of things we have invested over \$600,000 to upgrade office space and storage facilities at our Towanda field office on South Main Street where we now occupy approximately three quarters of the space of an abandoned Ames department store. Chesapeake

has also leased space in the Ingersoll Rand building in Sayre for our completion and production staff. We have invested through many of our subsidiaries as well - \$20,000 for facilities for Hodges Trucking in Milan; \$380,000 for facility improvements for Nomac Drilling in Waverly; \$375,000 for Great Plains Oilfield Rental facilities in Mansfield, and \$100,000 in site improvements for Hawg Hauling's new facility planned in Athens Township, Bradford County.

Chesapeake also strives to invest in the communities where we operate. Since 2008 Chesapeake has contributed over \$1 million in support of community organizations throughout the Northern Tier such as the Bradford County Conservation District, Grace Connection, Memorial Hospital in Towanda, Guthrie Health System's House of Hope in Sayre, several area libraries, Red Cross organizations, United Way campaigns, historical societies and multiple volunteer fire and ambulance companies.

Our company and employees have also felt the pinch of the housing shortage and increase rental rates. One reason that more families have decided to not relocate to the area and instead stay in temporary lodging such as hotels is due to the increase in rents and housing costs that are presented to "gas employees." In the Northern Region of the Marcellus Shale play Chesapeake provides relocation incentives to employees that are higher than other shale areas due to the fact of the increased rates that are being charged by landlords. However, the increases shown by property owners have even increased above what the company offers to our employees to cover housing expenses.

Overall, Chesapeake has committed a total investment of \$25 million for land acquisition, site improvements and permanent structures that will serve as offices and shop space for Chesapeake and our subsidiaries throughout the Commonwealth.

I hope the information presented is helpful to you as you continue to look at and address the issues being discussed today.

Thank you.