



michigan league of
conservation voters



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Conservation groups call for vigorous prosecution in collusion case that could have cost Michigan \$200 million

ANN ARBOR, LANSING --- Criminal charges against two oil companies are appropriate and should be pursued vigorously, key Michigan conservation groups said today. Attorney General Bill Schuette has charged Encana Oil and Gas USA and Chesapeake Energy Corporation with collusion. They are alleged to have conspired to hold bid prices down in an October 2010 auction of oil and gas leases.

The groups also called on Schuette and other appropriate state officials to immediately suspend leasing, drilling, and permitting by both companies in Michigan until the issue is resolved. Encana has submitted permit applications to drill for oil and gas, which could permanently contaminate hundreds of millions of gallons of Michigan water.

The maximum \$1 million fine associated with the charges is pocket change compared to what the alleged deal cost the state of Michigan. The collusion would have shortchanged the Natural Resources Trust Fund, which supports the acquisition and development of public land in Michigan with revenue from oil and gas leases on state land.

"Attorney General Schuette is on the right track by filing criminal charges, but all of the evidence leads us to believe that Encana and Chesapeake Energy cut a deal that left Michiganders, and our public land, short by hundreds of millions of dollars," said Patty Birkholz, former State Senator and current West Michigan Director for Michigan LCV. "If found guilty, letting both companies off the hook with menial fines would send the message that repercussions for criminal activities can just be factored into the cost of doing business in Michigan. We simply cannot afford to do that."

"If Encana and Chesapeake cannot be trusted to play by the rules, they should not be permitted to continue to lease land or drill for oil and gas in Michigan while this issue is being adjudicated," said Tom Baird, President of Anglers of the Au Sable, a Grayling-area conservation organization. "These companies have access to our prized public land and our invaluable clean water supply. No entity facing

criminal charges, with a stack of evidence mounted against them, should be allowed to continue to profit off of extracting Michigan's natural resources."

Schuetz's decision comes more than a year after a Reuters News Agency special report [<http://www.reuters.com/article/2012/06/25/us-chesapeake-land-deals-idUSBRE85O0E120120625>] detailed email exchanges with strong indicators of bid-rigging between the two oil and gas companies. According to Reuters, the State of Michigan may have been cheated out of more than \$200 million. Bids by Chesapeake Energy and Encana dropped from the May 2010 auction average of \$1,413 per acre down to \$46 per acre at the October 2010 auction with total revenues dropping from \$178 million to just \$9.7 million, even though the number of acres sold more than doubled.

The Michigan Environmental Council called for the voiding of the rigged bids, should the companies be found guilty.

"If the courts find that these companies colluded in the bidding process, the state should immediately move to void the contracts in question," said James Clift, policy director with the council. "Michiganders deserve to receive the maximum value for any assets of the state which are sold or leased. That amount can only be established through a fair and open bid process."

Michigan LCV called for fines to be raised in order to recover the amount lost by the state due to collusion, with the addition of a penalty that discourages oil and gas companies from conspiring.

"If the Attorney General's office is truly determined to prosecute aggressively, both companies must be held fully accountable," Birkholz said. "Emails show that they willingly discussed price points and acreage prior to the land auction. They should pay more than peanuts for settling the case out of court or if they are found guilty."

Revenue from state-held public auctions of oil and gas leases goes into Michigan's Natural Resources Trust Fund. This is an effective way to reinvest dollars in the protection of the natural resources from which extraction industries draw. Since 1976, about \$965 million has come out of the Natural Resources Trust Fund to acquire and develop state parks and trails. Almost 2,000 projects in nearly every county in Michigan have been completed since the Natural Resources Trust Fund's inception. The Milliken State Park --- a 31-acre stretch of trails, trees, and wetlands along Detroit's riverfront --- is just one example of Natural Resources Trust Fund dollars at work. Currently, the Michigan DNR is appropriating Natural Resources Trust Fund dollars to link trails across the state into one continuous 924-mile stretch that would connect Belle Isle in Detroit to the Wisconsin border in the Upper Peninsula.

If Encana and Chesapeake are found guilty of collusion, rightfully recovering the amount lost by the Natural Resources Trust Fund could fill upwards of two-thirds of the Natural Resources Trust Fund's coffers, due to its current cap of \$500 million. Directing fines from Encana and Chesapeake's alleged criminal activity back toward the improvement of Michigan's public, natural areas for all citizens to enjoy would be a certain step toward justice being served.

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Michigan League of Conservation Voters (Michigan LCV) is the leading non-partisan political voice for Michigan's land, air, and water. Visit us online at: <http://www.michiganlcv.org>