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A Win-Win Breakthrough for Marcellus Shale Gas Drilling

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We have discussed why the Marcellus Shale Play (MSP) is going to become one of the most significant energy basins in the U.S. ("[Marcellus Shale About to Take Off on One Sweet Ride](#)," "[Marcellus Shale Gas: The Energy Sector's Next Major Profit Play](#)").

However, problems remain, over both the environmental impact and the overall security of the drilling process.

Similar concerns about protecting the New York City watershed led to [a moratorium](#) on all shale gas drilling in New York state, while dozens of communities in Pennsylvania have followed suit. The most significant occurred on Tuesday (November 16th), when the Pittsburgh City Council voted unanimously [to ban drilling](#) within municipal limits.

I testified before that council on the proposed ban. I serve as an advisor to the Pennsylvania legislature in Harrisburg on a wide range of MSP drilling issues, along with the proposed severance tax on the volume obtained. I also assist several localities wrestling with the strains on infrastructure, services, and economies likely to hit as drilling accelerates.

There are compelling reasons to pay close attention to what is happening in Pennsylvania. At least 60% of MSP gas produced will be coming from wells in the commonwealth. What happens here will have a major impact on this drilling basin and others throughout North America.

And, as you'll see in a moment, there are two very compelling reasons for investors to keep an eye on the situation...

This Compromise Should Move Things Forward in the MSP

I have been advocating for some time for tougher drilling regulations. Because we need the gas, but also because people have a right to expect that the drilling will not ruin their water, their land... or their health.

Several questions have polarized discussion: dangers from toxic chemicals used on the [hydrofracking](#) process (which moves large volumes of water downhole to break open rock and release the gas), the possible leakage of volume coming back up the pipe, groundwater contamination, and a range of other environmental concerns – along with a well blowout in the MSP in June ("[A \\$7 Piece of Plastic Could Change U.S. Energy Strategy Forever](#)").

So in early May, the [Pennsylvania Environmental Council](#) assembled experts from 22 states to develop recommendations for changes aimed at overcoming problems from the drilling. I was one of those experts. We met for two days at Duquesne University in Pittsburgh, where I teach and direct the Energy Policy Research Group. Our advice was moved up to the [Department of Environmental Protection](#) (DEP), the state agency overseeing the drilling, as well as the [Independent Regulatory Review Commission](#) (IRRC), the clearinghouse for changes in state rules.

The DEP issued new, stricter water safety standards in August. But the real game-changer happened yesterday.

On November 18th, [the IRRC approved a set of rules](#) proposed to improve Pennsylvania's well-drilling safeguards and said it expects the final version to be on the books and enforced no later than January 2011. Actually, DEP wrote most of these new standards and coordinated them with its water standards and existing leasing regulations.

The rules lower the maximum allowable well pressure, raise standards for well cement and pipes, and strengthen the industry's obligations to investigate and report incidents of gas migrating out of well bores into residential water wells. They also require drillers to send electronic reports about the chemicals used at each well, with DEP setting up a publicly

available map showing the chemicals used at each drilling site.

This last change has been a very contentious one.

While some companies have already agreed to make public which chemicals they use in the fracking process, others have not. And most have claimed the formula applied is a [proprietary secret](#).

However, the rules issued by the IRRC provide these companies with a way out that respects that claim. The *formulas* will be regarded as trade secrets and not released to the public (establishing what is sure to be a precedent in other areas). Yet *what chemicals are used* will be available. And that tradeoff is probably going to be acceptable.

Here's what all of this means...

The regulatory changes – combined with the stricter control over the sources of water used in drilling, the protection of the environment from the water coming back up the pipe, where that flowback water can be discharged, and greater control over where it is retained – are providing greater protection against the environmental hazards.

And that means an increasing likelihood that we can begin to allay public concerns.

For the investor, this all adds up to two positive developments.

First, as we continue to shake out who acquires, or merges with, whom in MSP applications, more production and operating companies will become attractive targets.

Second, a tougher and more consistent regulatory structure will allow for the focusing of new technological developments to improve volume, lower cost, and protect both the environment and production margins.

With the removal of political and popular opposition to the drilling, both developments improving the outlook of operating companies and those enhancing the introduction of new technology will provide enticing returns to investors.

And best of all, this no longer need come with an environmental downside.

Seems like a win-win to me.

Disclosure: None

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[Original post](#)

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Ricard

Excellent article.

I arrive at the conclusion that shale gas production is on the path of further development, with mainstream application and government blessing being a more certain eventuality.

isaac the terrible

Thanks for your work on this important issue.
Environment must be put first, for that's where we live.
We need to get this right in order to prevent a backlash.
