

**BUSINESS**

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## **Expert says development of Marcellus shale fields offers huge benefits**

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CHARLESTON, W.Va. -- Development of the natural gas-rich Marcellus shale can create thousands of jobs and result in other economic benefits but must be done carefully, the American Petroleum Institute's chief economist said.

"We've admittedly been slow in terms of our outreach," said John Felmy, chief economist with the American Petroleum Institute - a national trade association representing the oil and natural gas industry.

"Basically, technology overcame us," he said. "We haven't done as effective a job as we can to explain the technology and to explain that the technology itself hasn't caused water problems but other aspects of drilling and cementing have to be done properly."

Natural gas drilling in the Appalachian basin has become a high-profile business during the past several years as companies learned how to drill horizontal wells and fracture the Marcellus shale to release natural gas.

The new drilling know-how is re-shaping the industry. There's talk that the Marcellus shale gas field may contain 500 trillion cubic feet of gas.

"That's a resource worth trillions of dollars," Felmy said.

But the activity has raised numerous worries.

Fracturing shale formations uses lots of water and sand and some chemicals. Concerns have been raised about the volume of water used and its disposal; truck traffic in drilling areas; surface owners' rights; and safety.

In the past five months there have been two well fires and an explosion at drilling operations in Marshall County. There also have been several accidents in Pennsylvania.

In one incident, an out-of-control natural gas well shot explosive gas and polluted water into the air for 16 hours on June 5. Felmy said that accident was particularly painful because it occurred in Clearfield County, about five miles from where he was born.

"We as an industry have to be clear that if we're going to develop this resource, we have to do it right," Felmy said. "We must work according to best practices. One incident is one too many. Anybody not playing by the rules should be shut down and fined, period."

Felmy pointed out that fracturing rock - known in the business as fracking ("a horrible-sounding technique") has been practiced in the oil and natural gas industry for more than 100 years.

"The technique itself has in no instance caused water problems but other aspects of drilling and cementing have to be done properly," he said. The gas-rich shale is 5,000 to 7,000 feet below the surface while most water is 300 to 500 feet down, "so if you have proper casing and cementing there isn't a problem."

Felmy is a featured speaker today at the Huntington Regional Chamber of Commerce's Energy & Natural Resource Symposium.

"We're out to talk about the fact this resource can have immediate economic benefits," Felmy said. "In Pennsylvania we have a whole lot of folks who are now able to keep their farms. In northern Pennsylvania there hasn't been any positive economic activity for a long time. I grew up near Lock Haven. The only industries there were Piper Aircraft (which left in 1984) and paper mills. The mills have been disappearing one by one because of a lack of resource and environmental regulations."

Development of the Marcellus shale is the first big natural resource-based opportunity Pennsylvania has experienced since lumbering in the 1890s, Felmy said. "So you've had leases where some people got \$7,000 an acre. The state has received around \$4,000 an acre. Then you've got the whole process of developing it. You have the moving in of drilling rigs. If you go through Pennsylvania, you'll find the hotels are booked up with gas field workers. You're seeing car dealers, sand and gravel suppliers, the railroads, trucking companies all benefiting."

It has been estimated that development of the Marcellus shale in Pennsylvania already accounts directly and indirectly for 45,000 jobs. "According to a study we had done, the break-out for Pennsylvania shows that by 2020, development in Pennsylvania could directly and indirectly support 200,000 jobs."

Felmy is concerned about potential regulations and state and federal taxes.

Although millions of dollars have already been committed to develop the shale in Pennsylvania, it's no sure thing the investment will continue, he said.

Unlike West Virginia, the Keystone State has no severance tax on natural gas.

Earlier this year, Pennsylvania's House of Representatives approved a tax of 39 cents per thousand cubic feet, which amounts to a tax of about 10 percent. That's higher than West Virginia's tax. The Pennsylvania Senate had proposed a tax that would be phased in to eventually reach a level about equal to West Virginia's. But the issue wasn't resolved before the Nov. 2 election.

With the election of a new governor and the many changes the election will bring to Pennsylvania's House and Senate, "I don't know what's going to happen," Felmy said. "Clearly the state needs money."

"Our point is yes, there's no severance tax but Pennsylvania has some very high taxes. There's a net income tax of 9.99 percent, which is higher than most other states. So before we move forward with a new tax, let's look at this comprehensively. If you raise taxes too high it's not economic and you'll drive those jobs out. We're clearly willing to pay our fair share as an industry but no more."

What's the industry's fair share?

"We don't know yet," Felmy said. "We've got to do a comprehensive analysis. We're looking at it."

"The whole debate on taxes is kind of interesting," he said. "I was recently talking to a state senator and she said she was puzzled. She said that if any other industry came and said it would invest billions and generate thousands of jobs, the very first thing you would say would not be, 'We're going to tax you.' Try to remember the Volkswagen plant in New Staunton. Our governor gave a lot away to get that. We're saying let's take a breath, see what we're doing. Right now this is one of the few bright spots in our economy. Development of the Marcellus has the benefit of natural gas produced domestically which improves our security, reduces our trade deficit and creates all these jobs."

With millions of dollars already committed to the Marcellus, isn't its development inevitable? In the state of New York, where there's a moratorium on drilling, "it's an open question," Felmy said. "Clearly investments have been made but you can choke off further investment. With unwise policies you can kill the goose if you're not careful."

Nationally, "What we've been seeing these last few years are proposals to tax the oil and gas industry and spend the money on alternatives," Felmy said. "We don't have an objection to alternatives but we don't see a reason to tax oil and gas, which generates energy and vast amounts of revenue for federal and state government and employs over

nine million people, and then spend the money on industries that historically haven't generated a lot of energy, have only existed through heavy subsidies and it's unclear how many jobs they create and are able to sustain."

Jack Harrison, director of government relations at the law firm of Goodwin & Goodwin and lobbyist for the American Petroleum Institute, predicted that development of the Marcellus shale will be a big issue in the upcoming session of the state Legislature.

Harrison said there currently are three sets of drilling regulations in West Virginia: for coal-bed methane wells, for shallow wells and for deep wells. "I would hope there would be a regulatory program just for Marcellus operations," he said. "That way the regulations don't bleed over into programs that have been established for decades and we deal with issues that just pertain to the Marcellus play."

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