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## Marcellus rush fuels spinoff for local firms

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BLAIRSVILLE DISPATCH

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INDIANA -- It's been estimated that companies moving into or expanding in the region to tap Marcellus Shale natural gas deposits could create nearly 200,000 jobs and generate more than \$13 billion in Pennsylvania over the next decade.

In the past few years, techniques for drilling vertically and then horizontally have made it feasible for operators to profitably unlock the Marcellus Shale gas deposits located thousands of feet underground in Appalachia -- including under large sections of Western Pennsylvania.

Through Nov. 30 of last year, 594 Marcellus Shale gas wells were drilled in Pennsylvania, mostly in the western part of the state. That activity was expected to produce more than \$3.8 billion in economic impact while creating more than 48,000 jobs, according to a report from Penn State University.

Indiana County, with its history of developing natural gas resources, has seen an initial share of what many predict will be a Marcellus-driven "boomlet."

In addition to the financial rewards awaiting companies that drill for and produce natural gas, pursuit of the area's Marcellus Shale deposits has had a positive spin-off effect on other firms that serve and supply the industry.

Among the new businesses that have been attracted by Marcellus Shale opportunities is Aztec Well Servicing, located on Airport Road in White Township.

Headquartered in New Mexico, Aztec was founded in 1963.

"The opportunity that is available due to the technological advances in securing natural gas from the shale was most definitely the reason we moved to Pennsylvania," said Jason Sandel, executive vice president of the company that has been under his family's management for three generations.

Sandel indicated Aztec was drawn to the Marcellus Shale region as were other companies it serves in the gas well industry.

"The shale play gets our customers involved, and then we want to service their needs," he said. "We see Pennsylvania as a long-term investment for our company."

Employing a total of more than 500 people, the company services wells and also drills them. Sister operations include rental of tools and sales of items such as safety supplies and hauling of both equipment and water to and from drilling sites.

After drills have penetrated to the deep pockets of Marcellus Shale gas, large

amounts of water are needed for the fracturing process. Water is pumped down the well in combination with sand to create openings in the rock structure that will allow the gas-bearing material to flow to the surface.

Once production is under way, wastewater that results from the process must be trucked away for proper treatment.

In addition to 13 drilling rigs, Aztec operates 33 service completion rigs, according to Barry Wieland, director of corporate relations and engineering manager. He explained the latter rigs, brought to a well site after other companies have completed the drilling and fracturing processes, perform such clean-up tasks as drilling out plugs that initially are placed until the well is ready for production.

Aztec also can install wellheads and can remove pumps from producing wells if needed to repair the well's inner tubing.

"Oftentimes, that tubing will become corroded," Sandel explained. "We address those problems on behalf of our customers."

Wieland noted Aztec mobilized its first two service completion rigs from its new Indiana location in February, for work at Marcellus Shale sites in Westmoreland County and near Williamsport, and is planning to transfer two more rigs to Indiana County next month.

He said the company additionally is considering moving some of its water-hauling trucks to Indiana County.

In support of its new operations, Wieland has been spending three weeks at a time in Pennsylvania. Other company personnel have relocated to Indiana County on a long-term basis.

"We have 10 people on the ground there now," he said. "They're Pennsylvania residents living in Blairsville and Indiana."

"We're also looking to bring a drilling rig to the area sometime by mid-summer," Sandel said. "Our employee count will triple almost overnight."

At the Airport Road site, Wieland said, the company has developed a gravel yard and is converting an existing house into offices. Once sufficient income has been generated at the new location, "We'll erect an office and a shop," he added.

Factors that prompted Aztec to settle on Indiana as its base for Marcellus operations include the town's central location, its amenities and the receptive attitude of local officials.

"Logistically, it was the correct move for us," Wieland said. "It's right in the central part of the (Marcellus Shale) play."

In addition, he said, "We like the size of the town and the location, with all the interstates around it. We like the people in Indiana, and it's a college town."

"It was very important for us to find a place that seemed like home," Sandel said. "We look at being invested in the community and being here for the long

haul."

"We're very interested in working with local leaders to share some of the experience that we have to make sure (Marcellus) resources can be developed responsibly, efficiently and effectively," he added.

"We're betting this is going to be a hotbed of activity in the coming years."

### **From Oklahoma to Indiana**

Kimray Sales and Service is another company, located nearby on Airport Road, that has found success serving the natural gas industry and has followed its customer base to Western Pennsylvania.

Based in Oklahoma City, Kimray began as a family company in 1948. It specializes in manufacturing valves and controls for oil and natural gas production applications and has developed a product line of models numbering into the thousands.

The company has 10 sales and service locations, including one in White Township, with yearly sales exceeding \$90 million, according to the firm's Web site.

Fred Hayes, northeast regional manager for Kimray, noted the company opened its Indiana County location in September 2005, a few years before interest picked up in tapping the region's Marcellus Shale gas deposits. But, now, it is perfectly positioned to serve that burgeoning industry.

Hayes said staff in Oklahoma City are working to expand the company's product line to better meet the higher pressure demands involved in operating the deep Marcellus Shale wells.

"We're dealing with higher pressures of 6,000 PSI (pounds per square inch)," he noted.

According to Hayes, Kimray has established itself by supplying equipment for the natural gas production process, rather than for drilling of wells or transmission through pipelines.

He explained the company's valves and pumps help control such factors as fluid levels and temperatures during the process where natural gas is separated from liquid and other material that emerges from a well.

Devices that it innovated for the industry include a glycol pump and a pilot-operated gas back-pressure regulator -- which consists of a motor valve and a pilot, or sensor, that responds to the gas pressure.

Hayes compared the latter device to an airplane pilot pulling on the stick control to make his craft climb in altitude: "You're making small changes which affect something much larger."

He also explained that glycol, which has an affinity for water molecules, is used to separate natural gas from accompanying liquids.

Hayes said Kimray launched its site in Indiana because it recognized the area

as being underserved. He said the location was meant to improve "our ability to make applications and to trouble-shoot" for customers in the region.

"This was the geographic center of the industry in 2005, and it's worked out very well for us," he said. "All my sales and marketing studies said I needed to be in Indiana County."

From the Indiana site, Hayes indicated, Kimray can service customers throughout Pennsylvania and West Virginia, southern New York state, eastern Ohio and Kentucky, as well as in Illinois and the state of Indiana.

In addition to selling new valves and controls, staff at the Indiana site can repair and recondition worn equipment. The company also sells repair kits customers can use in the field and combines stock parts to create customized equipment.

"We can make thousands of combinations," using different Kimray components, Hayes said.

Kimray touts that its products are manufactured entirely with domestic U.S. labor and materials and there is no obsolescence factor in their design.

Hayes noted a repair kit the company is currently selling for a particular model of product will work on any example of the same product, no matter how long ago it originally was manufactured.

When Kimray's Indiana site opened, Hayes relocated to Center Township. Most other employees have been hired locally, while one salesman resides in Ohio.

Of the company's more than 450 employees, seven man the Indiana location, in addition to Hayes. That includes two outside sales representatives and three service technicians.

Hayes noted he has to be conservative in hiring since Kimray has a policy against laying off its employees.

According to Hayes, 2008 was a banner year for the company in Indiana.

"We quadrupled our sales from 2005 to 2008 in this area," he said.

In 2008, Kimray also doubled the size of the warehouse at its Indiana site to 8,000 square feet and increased the staff there from four to the current seven.

Hayes noted the company's existing customers were expanding and it has picked up new customers.

Although sales fell off last year by 42 percent, in step with the dismal U.S. economy, Hayes said Kimray's Indiana site weathered the nation's financial storm in good shape: "We've been profitable every month we've been up here."

Kimray's customer base has shifted more from oil toward natural gas production over the past 15 years, Hayes indicated. He estimated that the natural gas industry now accounts for as much as 95 percent of the company's

clientele: "You didn't see that five years ago."

While a majority of the company's growth to date hasn't been tied directly to Marcellus Shale production, which is still gearing up, Hayes acknowledged, "Part of it is potentially due to the Marcellus Shale.

"The Marcellus is lifting the entire industry. If something's hot, it drags everything along with it."

He noted, as development of deeper Marcellus Shale gas well sites has taken off, "the conventional (shallow) well business has dropped off."

"This is an industry in its infancy," Hayes said of Marcellus Shale gas exploration and production. "It's been increasing at an exponential rate. It's what the steel and iron industry was to Pennsylvania in the 19th and 20th centuries. The natural gas industry will be the same in the 21st century."

"There's a lot of (natural gas) equipment being imported into this area, and a lot of jobs," Hayes observed. "I'm noticing lots of license plates from out of state."

"There is a tremendous potential for the gas industry in Pennsylvania," he said. "We're on the very front edge of the economic impact.

"We're looking at continued growth here. We will grow as the business comes."

The Homer City location of North State Supply has been able to maintain sales of various industrial tools and equipment during the economic slump -- in part due to the increased demand for items it provides to natural gas producers, including those that are tapping the Marcellus Shale formation.

"For us, it's been a key factor," general manager Scott Bandi said of North State's sales to Marcellus operators. "They've picked up a lot of the slack, whereas other companies are not doing as much with us."

While other companies in the industrial supply industry have seen sales drop by as much as 20 percent, Bandi said, "Our sales have stayed pretty steady."

Bandi said the company, which has been in Indiana County since 1974, has established a niche of supplying hand tools and safety equipment -- such as safety glasses, hard hats and first aid kits -- to the gas well industry.

North State also sells equipment that is used in gathering lines -- pipe that carries natural gas between the wellhead and a distribution line.

Since Marcellus Shale operations tend to require larger-sized gathering lines, "There's been a demand for us to carry specialty equipment that's used on them," Bandi said. That includes clamps measuring up to 16 inches that keep segments of the steel pipe aligned.

The heightened interest in drilling Marcellus gas wells has added to North State's potential customer base. "With the new companies coming in that haven't been in the area before, it definitely benefits us," Bandi said.

He said the strength of sales has prompted the company to install storage trailers for housing extra inventory while also adding one office job and at least one other in the location's warehouse. The company has a payroll of 27 employees.

"As we get busier, we hire as we need," Bandi said.

As long as Pennsylvania officials continue to issue permits for drilling Marcellus wells, "It's going to continue to be a real positive impact on our sales," he added.

Since a larger quantity of equipment is required to drill deeper wells, Marcellus Shale gas production can take a heavy toll on the heavy trucks that haul gear and materials to and from off-road well sites.

That has translated into more business for companies such as Truck Parts Unlimited in Indiana, which supplies parts for repairing and maintaining heavy trucks.

Running gear and suspension on the vehicles tend to take a beating, requiring replacement parts. And all heavy trucks regularly "need oiled, greased and their air filter changed," noted a company spokesman.

According to the spokesman, the company's sales revenues started to pick up in 2008, but he noted, "2009 was not as good," attributing the slip in sales to the national economic woes.

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