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Marcellus wells, output up in third quarter

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Natural gas production in the Marcellus shale reserve in Pennsylvania continued to rise in the third quarter, and industry observers expect additional increases despite a drop in prices.

Based on reports from major producers in the state, production increased significantly in the third quarter, and overall activity in terms of wells drilled rose dramatically this year.

"The Marcellus shale has been clearly the largest shale play in the country ... and production is going to be robust," said Alexander Steis, managing editor for Natural Gas Intelligence's Shale Daily in Sterling, Va.

"The production is increasing ... despite the possibility of a severance tax and a drop in prices. We're beginning to see a dropoff of production in other areas" where it is more costly to drill, said Kent F. Moors, director of Duquesne University's Energy Policy Research Group.

Natural gas futures prices have fallen, but they are still high enough for companies to make a profit in the Marcellus reserves, Moors said. In late June, the New York Mercantile Exchange futures price was about \$4.80 per thousand cubic feet (mcf). Yesterday, the futures price settled at \$3.43 per mcf, down 10.4 cents.

Pennsylvania is reaping the benefits of Marcellus shale gas that is cheaper to produce than in other regions. The average Marcellus well is cheaper because the reserves, at more than a mile underground, are shallower than reserves such as Eagle Ford in Texas, where the gas is at 12,500 feet underground, Moors said. The "pay zone" is better in terms of the volume and pressure of the wells, and the ability to cluster wells in an area, Moors said.

Production activity in the first seven months of this year has increased, compared to the same period a year ago, according to reports from the state's Bureau of Oil and Gas Management.

There were 1,721 permits issued for wells in the Marcellus reserves from January through July and 822 were drilled, compared with 999 permits issued and 263 horizontal wells drilled in the same period a year ago, state figures show. There was more activity in Washington and Greene counties -- 273 permits issued and 148 wells drilled -- than eight other southwest Pennsylvania counties combined, according to the report.

The state has received production reports from all but seven of about 80 producers in the Marcellus reserves for the period from July 2009 through June 2010, but it has not tallied the total production or average production per well.

Chesapeake Energy Inc., based in Oklahoma City, with offices in Mt. Morris, Greene County, said it was the largest producer in Pennsylvania's Marcellus shale for the 12 months ended June 30, with 33.6 billion cubic feet produced from 49 wells. Range Resources Corp. of Fort Worth, Texas, with offices in Cecil, produced 29.5 billion cubic feet of gas from 96 wells, according to the state.

In the third quarter, Consol Energy Inc. in Cecil said last week its natural gas division -- including traditional shallow wells and newer Marcellus wells -- achieved record production of 35.8 billion cubic feet, a 44 percent increase from the 24.8 bcf produced during the same quarter a year ago.

Consol began the quarter with one Marcellus rig running in Greene County and ended with three rigs, said the coal-and-natural gas producer.

Atlas Energy Inc., Moon, said its Appalachian unit reached a record 63.3 million cubic feet of natural gas in the third quarter, compared with 41.3 million cubic feet in the third quarter of 2009. Atlas drilled 19 Marcellus wells during the quarter and completed 12.

"The drilling is going to be getting even bigger in the Marcellus shale in 2011," predicted Bill Holland, associate editor of Gas Daily, a trade publication based in Washington.

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