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# Pegula drew violations as gas driller

By **James Heaney**

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[16 Comments](#)

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In the course of making his fortune, the Florida billionaire negotiating to buy the Buffalo Sabres contributed heavily to politicians in a position to advance his business interests and established a less-than-stellar track record in the environmentally dicey business of drilling for natural gas, The Buffalo News has found.

A News review of compliance records found East Resources, the company Terrence M. Pegula sold last summer for \$4.7 billion, had a middling record of complying with environmental regulations in Pennsylvania, his base of operations. The company last year paid the largest regulatory fine in its history and was involved in a spill of toxic wastewater that resulted in the first quarantine of cattle in the history of natural gas drilling in the state.

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**Pose your questions about the business and political activities of Terry Pegula during a live chat with The News' Jim Heaney at 11:30 a.m. Monday on [buffalonews.com](http://buffalonews.com).**

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"The compliance history of the company when it was in his hands was mediocre at best, and unfortunately, given the hazards of [hydraulic fracturing], mediocre isn't good enough," said Jan Jarrett, president of [PennFuture](#), an environmental protection advocacy organization based in Harrisburg.

Pegula has made more than \$630,000 in campaign contributions to Republican politicians and committees who support what one observer termed his "very, very conservative" positions on global warming and taxes and regulations related to the natural gas industry.

"He's mastered the political system in Pennsylvania. His company and his industry are getting special access and favorable treatment by the governor and legislature," said James Browning of [Common Cause Pennsylvania](#) and author of a [study](#) last year that examined campaign contributions from Pegula and others in the natural gas industry and how they have influenced state government in Harrisburg.

The Philadelphia Inquirer last fall [used Pegula and his wife as poster children](#) for as to what's wrong with campaign finance law in Pennsylvania, which, unlike most states, does not limit how much individuals and special interest groups contribute to state candidates. Pegula and his wife, Kim, gave Tom Corbett, the Republican candidate for governor last year, \$310,000, [making them one of the largest -- if not the largest -- donors to his campaign.](#)

Pegula refused an interview request from The News.

Pegula appears to be closing in on a purchase of the Sabres from Tom Golisano for a reported \$175 million. Pegula [met Saturday](#) with the executive committee of the National Hockey League in North Carolina, where the league is staging its annual all-star game today. The meeting is regarded as a precursor to formal consideration of sale by the NHL's Board of Governors in the coming weeks. There's a growing expectation that Pegula will assume control of the team sometime in February.

## Major driller

Pegula, 59, started his business empire with a \$7,500 loan from friends and family to start East Resources in 1983. He acquired competitors and negotiated leases with landowners to grant him drilling rights on their property, and [the company grew](#) to about 300 employees by the time he sold it.

For years, East Resources and other companies operated shallow wells to extract natural gas. Pegula and many other operators hit pay dirt when advanced drilling technologies and a rise in natural gas prices made it economically lucrative to tap the huge reserves of natural gas found in the [Marcellus Shale](#) beneath [much of Pennsylvania and portions of south-central New York, Ohio and West Virginia.](#)

Multinational energy corporations began buying out operators like Pegula, and last May, [Royal Dutch Shell purchased East Resources for \\$4.7 billion.](#) Pegula owned 65 percent of the company, which means the sale netted him about \$3 billion. Forbes ranks Pegula as the nation's [110th wealthiest person.](#) He lives in Boca Raton, Fla., where he and his wife operate other businesses.

With his fortune in hand, Pegula started looking to invest in one of his passions, hockey. Last September, he gave his alma mater, Penn State University, [\\$88 million to build a hockey rink and start a Division 1 program.](#) At some point last summer or fall, he initiated conversations with the Sabres about buying the team.

Pegula remains involved with a number of other business ventures, including an energy company that holds leases on some 350,000 acres for drilling purposes.

While natural gas reserves are the source of relatively clean energy, extracting the gas comes at a steep environmental price.

The gas resides in shale rock deep in the earth and must be extracted through a process, commonly referred to as hydraulic fracturing, or "fracking," developed in recent years by Halliburton, which successfully lobbied to get the method [exempted from review and regulation](#) by the federal Environmental Protection Agency.

#### [Here's how hydrofracking works:](#)

A vertical, then horizontal shaft is drilled, typically a mile or more into the earth. The shale rock is blasted with water, sand and more than 100 chemicals. The gas is released from the rock and pumped to the surface, as is much of the sludge water, which is then retained and treated.

Environmental problems are common, including the contamination of underground water, difficulties retaining and cleaning the sludge water used in the drilling, and the impact of drilling operations in what are usually rural areas. For example, the Allegheny National Forest is dissected by more than 2,300 miles of roads used by drillers that are heavily traversed by trucks and heavy construction equipment.

"If it isn't done exactly right, hydrofracking is a pretty big threat to water supplies, and our experience shows us that it often isn't exactly done right," said Jarrett of PennFuture.

Gas drillers maintain fracking is safe and that their industry has been a huge jobs generator in Pennsylvania. While the industry claims its Marcellus Shale operations added 77,000 jobs in 2008-09, an [independent analysis](#) by the New York research and consulting firm of J.M. Barth & Associates last year put that figure at closer to 3,000 in direct employment.

The prospect of jobs has piqued interest in tapping gas in the Marcellus Shale under portions of Central and Western New York, but then-Gov. David Paterson and the State Legislature last year [imposed a temporary ban on fracking](#) through May 15, pending further study.

## **Numerous violations**

A review of studies and Pennsylvania public records shows East Resources had an average to below-average track record of complying with environmental laws and regulations among some 75 companies that drill into the Marcellus Shale.

The [most-detailed analysis](#) was conducted last year by the [Pennsylvania Land Trust Association](#), which focused on potentially serious environmental violations found by the state's Department of Environmental Protection from January 2008 to August of last year, the period when drilling of the Marcellus Shale took off.

The report found that East Resources Management LLC ranked third among about 45 drillers cited for violations during that period. Using a different measure, which

takes the size of a company's operation into account, the violations worked out to about 4.1 per drill. That ranked the company seventh highest, well above the overall average of 0.65 violations per well.

A sister company, East Resources Inc., had a much better track record, and when data of the two companies is combined, their violations per well were slightly better than average, according to further analysis by The News.

The News also analyzed all Department of Environmental Protection violations from 2008-10, including both administrative and environmental violations, regardless of their severity.

In 2008, East Resources, operating under the two separate names, had more violations per well than the statewide average (0.5. versus 0.3) and significantly more than those of most other large operators.

That remained true in 2009, the last full year Pegula operated East Resources. The company averaged 1.2 violations per well versus a statewide average of 0.9. What's more, East Resource's rate of violations per well was significantly higher than most of the other large operators.

The violations picture improved last year, averaging 0.5 per well for East Resources versus 0.9 statewide.

Perhaps the [most noteworthy enforcement action](#) against East Resources came last May, when state officials ordered that 28 beef cattle be quarantined amid concerns they may have drunk toxic wastewater that spilled from a drill operated by the company in north-central Pennsylvania.

It was the first time livestock had been quarantined in the state as the result of a spill related to hydraulic fracturing; company officials maintained the quarantine was unnecessary. East Resources was cited for four violations of environmental regulations; the same well was cited for five violations five months earlier.

The state Department of Environmental Protection has [levied \\$129,241 in fines](#) against East Resources since 1997, according to records obtained by The News. The largest fine was imposed in May 2010, for \$29,000. The company's history of fines is regarded as middle of the pack within the industry.

Cathy Pedler, of the [Allegheny Defense Project](#), agreed with Jarrett of Penn Future that East Resources has a middling track record when it comes to complying with environmental regulations.

"There are certainly some worse actors. But there are no good actors. The industry in Pennsylvania is destroying public resources and has absolutely no regard for what's held in common," said Pedler, whose research and advocacy organization often challenges industry practices in and around the sprawling national forest in northwest and central Pennsylvania.

Earle Robbins, who acts as a liaison between energy companies and landowners as they negotiate drilling leases, said East Resources has been a good company to deal with.

"They are better than many of the other companies we have dealt with," said Robbins, vice president of [R&R Energy Consulting](#). "They have been very fair to work with and tried to do the right thing where they could."

Robbins said East Resources has also been a good corporate citizen in some of the communities it has operated in, making charitable contributions.

Officials from the [Pennsylvania Department of Environmental Protection](#) refused to discuss the fines or any other aspect of the company's compliance history.

## **Big contributor**

Pegula is no stranger to state politics in Pennsylvania -- and has every reason to be involved because of what's at stake for his industry.

Natural gas reserves in Marcellus Shale are among the largest in the world, and drillers in Pennsylvania operate in a favorable tax and regulatory environment -- and want to keep it that way.

Pennsylvania and New York are the only major fossil fuel producing states in the nation that do not impose a tax on natural gas extractions, which run as high as 15 percent of the market value. Gov. Edward Rendell pushed unsuccessfully during his recently completed term to join other states in taxing natural gas extractions in order to deal with its budget problems and fund work to remediate the environmental problems associated with fracking.

Long before Rendell made his move, natural gas interests had opened their checkbooks to fight efforts to tax and better regulate their industry. They contributed \$2.85 million to state candidates from 2001 to March of last year, according to [the study by Common Cause Pennsylvania](#).

The industry spent an additional \$4.2 million on lobbying since 2007, when Pennsylvania began to require the reporting of those expenses.

Most of the donations and lobbying expenses have come since 2008, when drilling in the Marcellus Shale began to escalate.

Pennsylvania is one of only 11 states that does not limit campaign contributions. Moreover, the Common Cause study noted that online data on contributions is available in a unwieldy system that makes it more difficult to track donations.

As a result, the study said, "Big political donors wield extraordinary influence over the political process in Pennsylvania."

## Donations cited

The Common Cause study found that Pegula, his wife and his company ranked as the second-largest contributors within the natural gas industry, giving \$427,500, accounting for 15 percent of all donations.

Browning, co-author of the report, said Pegula subsequently contributed another \$100,000 to Corbett's successful gubernatorial campaign. In total, Browning said, Pegula, his wife and company have given \$525,000 to state candidates since 2001.

The last two Republican candidates for governor, who have both taken stances supported by the natural gas industry, received the lion's share of those contributions. Corbett, who took office last week, received \$310,000, while Lynn Swann, the former Pittsburgh Steelers star, got \$191,000.

The size of those donations dwarf what is permissible in most other states and at the federal level.

While Pegula has invested mostly in gubernatorial candidates, he contributes to others, as well.

Last August, [he gave \\$25,000](#) to State Sen. Joseph Scarnati, who, at the time, was playing a key role in negotiations to determine whether the state would tax natural gas extractions. Scarnati does not face re-election until 2012.

The timing and amount of the donation prompted strong criticism from Alex Kaplan of Common Cause Pennsylvania, who who termed it "a stark attempt to buy influence during a crucial time for a severance tax."

[Those negotiations collapsed](#), giving the natural gas industry a major victory.

Pegula and his wife are also major contributors at the federal level, with [donations of \\$106,350 since 2006](#).

Pegula and his wife each gave \$30,400, the maximum allowed under law, to the National Republican Senatorial Committee on the same day last September. They've given \$34,250 to national and state Republican committees over the years.

Other recipients include newly elected U.S. Sen. Patrick Toomey, R-Pa., former U.S. Sen. Rick Santorum, R-Pa., and an oil industry political action committee.

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## Comments

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**SORT:** **NEWEST FIRST** | OLDEST FIRST

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"It's called journalistic "due diligence" and the News should be commended for its research into the business background of the hockey team's prospective owner, warts and all. "

Um, no...they should not. This paper seems to think it should stick it's biased face in anything that isn't important, and make a big deal out of it.They did it with the gubernatorial election.It's almost as if this paper loves drama---and so goes out seeking it as desperately as possible.It's not "good reporting," it's just pathetic.

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**JAMIE ROZEK, BUFFALO, NY** on Sun Jan 30, 2011 at 07:50 PM

REPLY      FLAG AS INAPPROPRIATE

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"It's called journalistic "due diligence" and the News should be commended for its research into the business background of the hockey team's prospective owner, warts and all. "This is nothing close to "due diligence", IMHO. It smells ... "

Thanks, I did follow up on your referral:1. "Left-wing controlled Buffalo News?" Yeah, right, this paper is way, way over there with The Village Voice and the Boston Phoenix. 2. "That is why regulatory agencies oversee industrial activities through the permitting process. They charge permitting fees and levy fines when appropriate. "Yet, the 100 proprietary chemicals used in the fracking process were waived from having to be disclosed in 2005 . "...the Bush/ Cheney Energy Bill exempted natural gas drilling from the Safe Drinking Water Act. It exempts companies from disclosing the chemicals used during hydraulic fracturing. Essentially, the provision took the Environmental Protection Agency (EPA) off the job. It is now commonly referred to as the Halliburton Loophole."See <http://www.gaslandthemovie.com/whats-fracking/The Safe Drinking Water Act>, you know, the one that "old lefty" Richard Nixon signed into law.

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**BRANIMIR PRELOSNAK, HAMBURG, NY** on Sun Jan 30, 2011 at 07:21 PM

REPLY      FLAG AS INAPPROPRIATE

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"Terry Pegula has discovered, smartly, that when you have money, politicians are the single most efficient you can have. First, when bought, they stay bought. Second, you can utilize them to build barriers to entry to prevent ... "

Don't be surprised if a lot of people who heat with natural gas will be the first to complain about the fracking in Pennsylvania. I don't believe Pegula invented fracking, and the News is part of a failing business that might think people are dumb enough to think he did, but he ran a business that provided real work, producing a real product to fill a real need, so maybe he's the News' version of evil, but as the saying goes, "consider the source".

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**DAVID THOR, EAST AURORA, NY** on Sun Jan 30, 2011 at 06:22 PM

REPLY      FLAG AS INAPPROPRIATE

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From a business that pays Rod Watson for being a racist and blames Republicans for what happened in Tucson, and has thrown years of garbage on top of the heap that earned them the worthless title of "Paper of Distinction", comes another example of why the News is considered a business that hires from the bottom, and keeps them there.

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**DAVID THOR, EAST AURORA, NY** on Sun Jan 30, 2011 at 06:10 PM

REPLY    FLAG AS INAPPROPRIATE

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"It's called journalistic "due diligence" and the News should be commended for its research into the business background of the hockey team's prospective owner, warts and all. "

This is nothing close to "due diligence", IMHO. It smells like a hatchet job, and I refer you to Mr. Muscalo's post below.

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**MARK FORNOFF, WILLIAMSVILLE, NY** on Sun Jan 30, 2011 at 04:26 PM

REPLY    FLAG AS INAPPROPRIATE

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It's called journalistic "due diligence" and the News should be commended for its research into the business background of the hockey team's prospective owner, warts and all.

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**BRANIMIR PRELOSNAK, HAMBURG, NY** on Sun Jan 30, 2011 at 02:37 PM

REPLY    FLAG AS INAPPROPRIATE

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" This has everything to do with the purchase of the Sabres and by the way there is Marcellus shale around HSBC arena. This goes to the character of the 2 that will own the Sabres, that's ... "

You are an idiot!

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**DAVID MUSCALO, LAFAYETTE, NJ** on Sun Jan 30, 2011 at 02:29 PM

REPLY    FLAG AS INAPPROPRIATE

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I am an environmental consultant. I have been working in the environmental field for about 30 years. For five years, I worked for a regulatory agency. I consider myself to be a "sane" environmentalist and very good hydrogeologist. No drilling project, hydrofracking operation or industrial activity is immune to undesirable and environmentally damaging effects from operations. That is why regulatory agencies oversee industrial activities through the permitting process. They charge permitting fees and levy fines when appropriate. Mr. Pegula's corporation has

operated within the framework of that environmental regulatory milieu. For that reason, he should be applauded not condemned. As for his political contributions, would the left-wing controlled News complain, or indeed report the event, if Mr. Pegula donated large sums of money to the Democratic Party candidates. I seriously doubt it. Protecting the environment is everyone's responsibility. Creating quality jobs in the labor market of the private sector by the prudent use of capital is highly desirable and should be encouraged by the media. The environmental agencies in the United States are protecting the environment from overexploitation. My suggestion is that the media would do the working people of this country a great service by supporting the efforts of entrepreneurs. Western New York would greatly benefit in adopting an approach to the recovery of natural gas from the Marcellous Formation in New York State.

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**DAVID MUSCALO, LAFAYETTE, NJ** on Sun Jan 30, 2011 at 01:33 PM

REPLY      FLAG AS INAPPROPRIATE

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Here we go with the negative already. First off Terry Pegula under law can donate his money to whomever he pleases. Secondly, the information against hydrofracking is mostly one-sided and filtering from environmental protectionists...so work on getting both sides of the story. Third, wow, and this is groundbreaking....Terry Pegula owned a company that had violations filed against it...show me a business, agency or organization in government or the private sector that hasn't. Give me a break...finally something positive to get behind with a good man coming in to buy one of our sports teams and possibly the other in the future and the negativity starts brewing already. Maybe that's why this region will never grow. And to suggest that he may be coming to Buffalo so he could set up wells in the Shale rich areas of Western and Southern New York is ludicrous...but if he does and the State (which has not yet to this date approved an economically productive and lucrative natural gas drilling operation) then so be it. But don't pretend that you know that fracking is a danger when the people involved in the environmental side of fracking and the people in the fracking business aren't even sure yet. But I guess like most things in today's society, people read articles in the news and assume that the article is right on all accounts and suddenly we are all experts on a subject that many have never heard of before.

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**ROBERT BALKO, BUFFALO, NY** on Sun Jan 30, 2011 at 01:10 PM

REPLY      FLAG AS INAPPROPRIATE

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This has everything to do with the purchase of the Sabres and by the way there is Marcellus shale around HSBC arena. This goes to the character of the 2 that will own the Sabres, that's why the Regases are in jail now, especially with the present day extensive interests in Natural Gas that the Pagula's still have. The NHL also portrays the Pagulas as stellar citizens which they aren't to many with this track record in this industry. I'm all for getting an owner for the Sabres that knows and cares about Hockey, which is a strong suit for the Pegulas but politics always go with sports in today's society and it should, the players and owners are high profile figures now, I believe OJ should come off the wall of fame and out of the Football HOF. This fantastic bit of investigative reporting is very necessary in a Democracy, I hope with all my heart that it helps clean up the Pegulas less than stellar record in the Natural Gas Drilling industry.

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**BILL GODZISZ, TONAWANDA, NY** on Sun Jan 30, 2011 at 12:58 PM

[REPLY](#)   [FLAG AS INAPPROPRIATE](#)

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