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## Revvng up: Energy companies poised to drill Marcellus Shale in N.Y.

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If the <http://www.pressconnects.com/gaslease>">Marcellus Shale were a target, the bull's-eye would encompass northern Pennsylvania and the Southern Tier.

Companies seeking the multibillion-dollar promise of domestic natural gas production have begun bearing down on the Pennsylvania part of that bull's-eye. According to data filed with the state Department of Environmental Protection, there were 191 wells drilled in Susquehanna, Bradford and Tioga counties in 2009.

Not surprisingly, they have found one of the thickest and most geologically promising Marcellus section, living up to its expectation.

<http://php.pressconnects.com/pawells/pawells.php>">Interactive map of all drilling permits in Bradford, Susquehanna, Tioga Pa. counties.

All indications are that drilling will accelerate in 2010 in Pennsylvania. By the end of last year, the state DEP issued permits for 787 gas wells in the three counties bordering the Southern Tier.

With permits already approved for hundreds of wells yet to be drilled, Pennsylvania operations are not being held back by regulatory issues, but by a lack of manpower and equipment, which is being relocated from gas fields in the South and West.

The picture changes north of the border.

Although the Southern Tier's geology holds the same kind of promise, it will have to wait until the N.Y. Department of Environmental Conservation completes a statewide review of a process rife with environmental concerns. In the meantime, stakeholders in New York are eagerly tracking the progression of Marcellus development in Pennsylvania, with a hope of learning more about what's in store for them.

So far, impact from Marcellus production in Pennsylvania gets mixed reviews from those close to it.

Land-lease deals with Fortuna and Chesapeake in Bradford and Tioga Counties have provided net gains to farmers in the area. In a year when their industry suffered from plummeting milk prices and the recession, some farmers were spared by money from royalties and leases. With that, they were able to pay off debts, upgrade equipment and in some cases expand their farms.

"It's taken some of the stress off farming," said Mark O'Neill, a spokesman for the Pennsylvania Farm Bureau. "It's brought income in a time when they are really struggling."

Some stakeholders in northern Susquehanna County, however, have a much bleaker outlook after enduring spills and pollution at the heart of a well field being developed by Cabot Oil & Gas in Dimock Township. One well exploded and 13 were eventually taken off line after gas from nearby drilling operations migrated into the water table, according to records from the state Department of Environmental Protection.

Cabot ended up paying more than \$200,000 in penalties for environmental violations, and operations were suspended for a several weeks after a series of spills in the area contaminated surface water last year.

## No happily ever after

Dimock resident Victoria Switzer is now on a mission to bring the round-the-clock drilling in the once-tranquil countryside to an end.

She and her husband began building their dream home in the picturesque Endless Mountains countryside several years ago. They had anticipated hiking, cycling and playing with grandchildren. That was before the din and clamor of a working gas field erupted all around them.

"Friday is water delivery day," Switzer said curtly, reflecting on the irony of the situation. They moved to the location on Carter Road to relish the fresh air, beauty and purity of the landscape, only to have their water well ruined as a legion of massive rigs roll across the small country lanes and set up towering drilling derricks. The Switzers have been added to a list for water delivery by Cabot, as ordered by the DEP.

"It goes to prove that there is no happily ever after," said Switzer, who is part of a lawsuit with 15 other residents seeking damages from Cabot related to water pollution and other problems from drilling.

Switzer, however, is not keenly interested in monetary damages. She mostly wants a stop to the drilling in the area that has been in the epicenter of development -- "They call it the red zone, we call it the dead zone," she laments -- and stricter oversight to minimize disruption and prevent pollution elsewhere.

"Where are we supposed to go?" she asked. "I'm trying to say enough is enough."

Cabot has no intention of letting up anytime soon. In fact, the drilling that is wearing on the nerves of Switzer and many of her neighbors is just beginning.

The Houston-based company, which drilled 32 wells in 2009, expects to bring a total of 75 wells on line by the end of 2010, according to a report to investors.

"This is more than a doubling of our effort and will account for two-thirds of our investment program," Dan O. Dinges, chairman, president and chief executive officer, stated in the report.

Still in the earliest stages of production, Cabot has been producing 52 million cubic feet a day in the Dimock area. With gas prices the lowest in years, that means \$250,000 a day, or \$90 million a year is flowing out from under the rural countryside. That will increase substantially as more wells rapidly come online. If gas prices climb to levels even close to what they were in the summer of 2008, the values would double or triple.

## Work force friendly

Production is also ramping up in counties to the west, with fewer problems reported outside of issues related to traffic and noise, along with some landowners who feel they were short-changed on their mineral rights, according to information from town officials and farm bureau representatives.

Although drilling is on hold in New York, interest remains keen, said Matt Sheppard, senior director of corporate development for Chesapeake. The company drilled 96 wells in 2009, mostly in northern Pennsylvania, with plans to intensify efforts this year. It has moved 14 drilling rigs to the region while its work force grew from 250 in 2008 to 850. The company is still hiring workers and is considering plans to build a man camp -- a restricted compound to house roughnecks -- in northern Pennsylvania.

"It's still very early in the play," Sheppard said.

What does this mean for New York?

Based on current geological data, leasing trends and major pipeline locations, the Southern Tier can expect to see similar development, once the state finalizes the framework under which it will allow Marcellus permitting to move forward.

The document, called the Supplemental Generic Environmental Impact Statement, was issued in draft form in September. During a 90 day public comment period, it drew nearly 10,000 comments, ranging from those urging drastic revisions, and even a completely new regulatory approach, to those who say it is sufficient to allow Marcellus permitting to begin.

Major groups and governmental agencies, including the Environmental Protection Agency, the DEC's own unionized work force, lawmakers and national environmental agencies have criticized the document as being too lax, and some have threatened legal challenges.

On the other side of the debate, industry proponents are urging the DEC begin permitting sooner, rather than later.

"Simply put, the measures ... will be more burdensome than any of those placed on our industry throughout the United States and will more than adequately ensure that the development of the Marcellus Shale natural gas formation in New York will occur with sufficient environmental safeguards," states a letter from Paul Hagemeyer, vice president of Regulatory Compliance for Chesapeake.

## Waiting their turn

Even if permitting were allowed beginning tomorrow, there is the issue of regulatory manpower to oversee the job. Anticipating the gas boom, Pennsylvania created 37 new positions and opened a new office in Williamsport just to manage the rush in the northeastern and north-central regions.

New York officials have no such plans. That means permitting backlogs may grow unwieldy, bringing further delays when the rush crosses the Pennsylvania border.

The gas under the Southern Tier will keep, however, and may even grow more valuable with an increased emphasis on domestic energy production with a smaller carbon footprint.

"With the data we have right now, the Southern Tier of New York looks very good," said Don Zaengle, a geologist from Worcester. "But we don't have the production yet to prove it."

With 20 years experience with Shell Oil, Zaengle now works for landowner groups in the Southern Tier negotiating mineral rights with energy companies.

Even without final proof, there seems to be plenty of confidence within the industry about the value of gas under the Southern Tier.

Last year, Hess Corp. offered a group of landowners in Broome County a deal worth more than \$105 million, plus 20 percent royalties on production, but that fell through because the parties could not work out land-use issues.

In 2008, XTO signed a \$110 million deal with 500 landowners in Deposit. XTO was bought by Exxon Mobil late last year.

Also, Fortuna Energy finalized a deal worth about \$165 million, not including royalties, with the Friendsville Coalition, representing more than 600 landowners from Susquehanna County and parts of Broome. The landmark deal was for \$5,500 an acre plus 20 percent royalties. Landowners in Broome, however, would receive only \$500 an acre until the state's rules are finalized.

When the industry does move north across the border, according to Zaengle and other proponents, residents enlightened by Pennsylvania's experience will be armed with better government oversight and more stringent leases to prevent problems.

"I think it will be highly unlikely they will have the type of development free-for-all that they've had in Dimock," Zaengle said. "Pennsylvania is a lot like the wild west."

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