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# Talisman: severance tax would make drilling "uneconomical"

BY JAMES LOEWENSTEIN (STAFF WRITER)  
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Review Photo/JAMES LOEWENSTEIN Mark Scheuerman of Talisman Energy USA talks with staff from The Daily Review.

TOWANDA - The enactment of a natural gas severance tax at this time in Pennsylvania would put further Marcellus Shale drilling by Talisman Energy USA in the Northern Tier at risk, the director of government and media relations for the company said.

The current unusually low price of natural gas coupled with a planned severance tax would "quickly make the wells here uneconomical" to drill, said Mark Scheuerman, the director of government and media relations for Talisman Energy USA Inc., one of the largest producers of Marcellus Shale natural gas in Pennsylvania. "It's probably the worst possible time for that (enactment of a severance tax) to occur," he said.

Scheuerman made those comments during an interview Thursday with news and editorial staff from The Daily Review, in which he also said that he believes the chemicals used by his company for hydraulic fracturing are so diluted with water by the time they are injected into the well bore that they are not harmful.

He also discussed his company's conversion to recycling 100 percent of the flowback water from hydraulic fracturing, the long length of time that Marcellus wells will steadily produce natural gas, the need for better road use maintenance agreements in Pennsylvania, and other matters.

## Severance tax

While the Legislature has agreed to pass a natural gas severance tax by Oct. 1, Scheuerman expressed doubt that that would happen.

"We're not so sure" there is going to be a severance tax anytime

soon, he said.

This year, Talisman Energy USA, which used to be known as Fortuna Energy, is spending \$1 billion on capital expenses for its operations in Bradford, Susquehanna and Tioga counties in Pennsylvania, and is well on its way to meeting its goal of producing 300 million cubic feet of gas per day by the end of 2010 in those counties, Scheuerman said.

The severance tax proposed by Gov. Ed Rendell -- 5 percent at the wellhead, plus 4.6 cents per 1,000 cubic feet -- "doesn't sound too bad when you're talking about a company like us that spends what we do," he said.

But Rendell's proposed tax "has about a 30 percent negative net present value impact on our bottom line," which "makes investment 30 percent less attractive" in the Marcellus Shale, he said.

And that will make it more difficult for Talisman Energy USA to secure additional money from Talisman's corporate headquarters in Calgary, Canada, for drilling operations in the Marcellus Shale in Pennsylvania, he said.

"We lose our advantage when we go to our internal table and say we'd like to have an investment equal to what we had last year" because that investment "will garner one-third less than it did in the past," he said.

A Pennsylvania severance tax would put Talisman's Marcellus operations in a "very vulnerable position" when competing for the company's investment dollars, since the company could instead choose to invest those dollars into its ongoing shale drilling operations elsewhere in Canada, as well as in gas drilling operations in other countries, Scheuerman said.

The price of natural gas is currently at \$3.70 to \$3.80 per 1,000 cubic feet, down from \$11 to \$12 per 1,000 cubic feet in 2008, he said.

## Drilling

Scheuerman said the focus of regulation of hydraulic fracturing should not be at 6,500 feet underground -- where the fracturing of the shale is actually taking place -- but on the handling of chemicals used in hydraulic fracturing at the surface and on the cementing and casing of wells, which is in the upper portion of the well bore.

The hydraulic fracturing of the Marcellus Shale layer itself "has a great track record, with very little or no incidents," he said. "It's at the surface where the issues occur," including spills of chemicals used in hydraulic fracturing and problems with the casing and cementing of the well bore, he said.

While in general the system of cementing and casings in the well bore "has worked extremely well," those subsurface contamination incidents that have occurred have been associated with the cementing and casing in the well bore, he said. New regulations would be appropriate that would, for example, address "the integrity of the cementing" and how the cement is mixed as well as the quality of the steel that is used in the steel casings, he said.

"We don't think there is any issue with migration" of hydraulic fracturing fluids from the Marcellus Shale layer itself, which is located thousands of feet below the groundwater aquifers, he said. "We haven't see it (such a migration) take place," he said.

And he said that Talisman believes the chemicals it uses in hydraulic fracturing are not harmful after they have been mixed with the water that is used for hydraulic fracturing.

"You hear about barrels and barrels of surfactants (that are used in hydraulic fracturing)" at well sites, he said. "In their non-dilute state, they have to be handled very carefully. The mixing has to be done just right. The surface

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conditions and meteorology -- everything has to be taken into account. But when they become dilute and are injected correctly (down the well bore), they are not of any risk or of any harm, we believe."

Production

After a Marcellus Shale gas well begins producing, there is an initial drop in production rate over the first few years.

But after that, the volume of gas produced by a Marcellus Shale well "stays steady for decades," Scheuerman said.

"The steady state is really the attractiveness of the Marcellus Shale," he said. "People think it's the abundance of the deposit, and that's a huge thing. But it's really the geological characteristics of the Marcellus Shale" that will cause the wells to produce steadily over the long term, he said.

Recycling

During the last year, Talisman began recycling 100 percent of its flowback water from hydraulic fracturing," he said.

"We recover the flowback" and use it at the same site for hydraulic fracturing of a couple of additional wells, "and then take it to a facility in Williamsport which separates out the solids," he said.

After the solids are removed, the water is again used for hydraulic fracturing, he said.

As a result of the recycling, "we have lowered our truck traffic by more than half," he said.

Roads

Talisman Energy USA will continue to focus on road maintenance, he said.

"We think there needs to be a standardized road use agreement statewide," Scheuerman said. "We think that other operators in the industry should impose on themselves the model we have imposed on ourselves: do an assessment of the road before we get there and after we're done, and make that part of the road use agreement. We think there has been an inconsistency in those types of transactions and interactions between the government authorities and the operators, where you have it done sometimes on a handshake ... That's where a lot of these issues have come up, as far as who's obligated to do what and when and to what degree," he said.

Chemicals

Talisman has been posting the chemicals that it uses in hydraulic fracturing at its Web site for nearly two years, and the Department of Environmental Protection posts hydraulic fracturing chemicals used by companies on its Web site, too, Scheuerman said.

Nevertheless, "we're still living with the idea that they (the chemicals) are not fully disclosed," he said.

James Loewenstein can be reached at (570) 265-1633; or email: jloewenstein@thedailyreview.com

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 **TARGETOFFORCEDPOOLING** 1 day ago

The gas industry is NOT going to leave. They have thousands of acres of leases that are due to expire within the next year or so. They are not going to let these leases expire, otherwise they would have to come back and renegotiate the leases with the landowners that they RIPPED-OFF last time. That will cost the industry a whole lot more than a severance tax.

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**TARGETOFFORCEDPOOLING** 1 day ago

On drilling...CHK is ordered to inspect 171 gas wells that they have drilled in the northeast for gas migration. Looks like it's not the "poorly constructed water wells" that CHK claims is causing the gas migration but...poorly constructed gas wells that are responsible.

<http://www.portal.state.pa.us/portal/server.pt/community/newsroom/14287?id=14274&typeid=1>

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**Paul18848** 1 day ago

Sounds like a lot of hot air from an individual who gets paid to blow smoke... his propoganda has long been proven wrong. Then again, does anyone really expect the gas companies to tell the truth anymore?

7 people liked this. [Like](#) [Reply](#)



**griz104** 1 day ago

Ahhh..That would be to bad if they had to stop ripping up the Countryside and letting things go back to normal!! I personally don't think that they are doing that great of a job except for making a mess of things..

7 people liked this. [Like](#) [Reply](#)



**Notafanofdrilling** 1 day ago

Let them go away for now and come back when the price of gas is up, not only will the technology of shale gas drilling have been moved further along, the royalty owners will receive more royalties when the price of gas is up. No fear of them leaving - they will be back! Enact a hard-hitting severance tax!

7 people liked this. [Like](#) [Reply](#)



**subscriber2** 19 hours ago in reply to Notafanofdrilling

I agree. If we can slow the pace of drilling by making a severance tax hurt, what are we waiting for? The initial support for this industry and their methods has waned as we have seen the horrible downside, with few seeing any benefit. Big severance tax - reduced drilling; sounds like a win-win situation to me.

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**BCPA\_Lady** 1 day ago

Talisman is spending a billion dollars in just 3 counties, which means they expect a substantially higher return on their investment -- but they're afraid a 5% severance tax and a 4.6% cf tax will impact their bottom line so severely that they'll have to pack up and leave or focus on other areas? Riigghhht. Is anyone buying that...besides Pickett and McLinko?


And what does Talisman's 2009 annual report state?

In the Pennsylvania Marcellus, the Company has budgeted close to \$1 billion, ramping up to 10 rigs (currently six) over the course of 2010. Talisman plans to drill 170 net wells in the Pennsylvania Marcellus in 2010 (up from 45.5 in 2009), with about 145 wells completed and tied-in. Talisman expects to exit 2010 at between 250–300 mmcf/d [million cubic feet per day], up from 65 mmcf/d at the end of 2009. **Plans are built on an expected ultimate recovery per well of 3.5 bcf, [billion cubic feet] with 30 day initial production rates of 3 mmcf/d.**[my emphasis]

So, yeah. I'm not buying this "ooh it'll be too expensive for us to stay here" nonsense.

As for the "dilution" of fracking chemicals into water....fracking chemicals make up 1% (+/-) of the fluid, which sounds incredibly small and non-threatening. Until you realize that 1-3 million gallons of water is used at EVERY well, which means 10-30,000 **gallons** of chemicals. Per well.

I applaud the recycling of flowback fluids, however it's important to note that only two-thirds (and sometimes as little as one-third) of the fluid used to frack a well are recovered and thus recycled. We have no independent scientific studies to prove the gas companies' claims that the unrecoverable fluids cannot migrate to aquifers, wells, and streams/ivers. Mind you, we have no proof that it *does* migrate, but that's exactly the problem -- we don't know one way or the other.

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**CamptownGal** 1 day ago

Typically they don't pump gas until it's between \$4-\$5+ cu ft. "a 30 percent negative net PRESENT value impact on our bottom line," may be true NOW but it won't be a time they pump ANYWAY until more pipelines to get it outta here are built! He's saying that they have a "problem" but it's not a REAL problem because they would not pump anyway!


Nice try.

5 people liked this. [Like](#) [Reply](#)



**BCNative** 1 day ago

I'm not saying I'm buying everything this guy is saying (he is a paid shill for his company, c'mon) but I commend The Daily Review for securing this interview.

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