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Tax us, police us, Talisman urges N.Y.

By Shawn McCarthy

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Slowed by drilling moratorium on massive shale gas deposit, company calls for higher fees to facilitate better regulation

In its eagerness to tap New York state's massive Marcellus shale gas deposit, Calgary-based Talisman TLM-T is urging the state government to slap higher fees on industry to finance a more effective regulatory system.

Talisman - one of the largest leaseholders in the state - faces a prolonged moratorium on drilling. New York's Senate passed legislation last week that would prohibit drilling until next May to provide time to assess the environmental impacts of the gas boom in neighbouring Pennsylvania. The state's lower house is expected to take up the bill in September.

In a bid to ease residents' fears, a senior Talisman official suggested Tuesday that the state should follow the lead of Pennsylvania, which increased drilling permit fees to \$4,000 (U.S.) per well from \$100 and plowed the most of the revenue back into the regulatory system.

Mark Scheuerman, the company's director of government affairs in the U.S., said the state of New York is missing out on a financial bonanza by blocking the development of the Marcellus deposit. He said the company has 13 wells on state-owned land in Pennsylvania which will pay \$12-million to government coffers, and expects to double the number of wells on state land.

"We're not saying we need to trade the economic equation for any unreasonable risk as far as impact at the surface or to other environmental locations," Mr. Scheuerman told reporters on a conference call.

He said state officials should identify "off-budget" ways to increase funding so that the Department of Environmental Protection "has the wherewithal not only to turn around permits in a commercially acceptable time frame as we need as a business, but even more importantly to exercise their prime directive to being solid environmental stewards."

Across the United States, the natural gas industry is locked in a high-stakes battle with critics who say local water resources are threatened by the intensive drilling and hydraulic fracturing techniques needed to tap massive shale gas deposits.

Shale gas has been described as a game changer in the North American energy market, with huge production depressing natural gas prices and prompting electric utilities to increase their reliance on the relatively cleaner burning fuel.

Talisman is one of the biggest players in the Marcellus shale play, which extends from West Virginia to New York. A recent study by Pennsylvania State University geologists said Marcellus has the potential to be the world's second

largest producing gas field.

The company is spending \$1-billion this year to develop its Marcellus acreage but exclusively in Pennsylvania after it was forced to shut down drilling in New York due to the state's de facto moratorium. It is now producing 190 million cubic feet per day of gas in Pennsylvania and expects to increase that to as much as 300 million cubic feet per day by the end of the year.

Faced with aggressive opposition to development in New York from several quarters, Mr. Scheuerman participated in telephone news conference with industry officials on Tuesday in advance of an expected hearing by the federal Environmental Protection Agency (EPA), which had been scheduled for Thursday in Syracuse.

The EPA has launched a major study on the effects on water sources from shale gas development, and has held a series of raucous public hearings where some landowners have complained loudly about contamination resulting from gas development. On Tuesday, the agency postponed the hearing in Syracuse after a conference centre said it was facing security concerns from the anticipated large crowds.

Industry officials insisted Tuesday that companies have for decades been safely using hydraulic fracturing techniques, which shoot chemical-laced water under tremendous pressure to crack the rock and allow the gas to escape.

Brad Gill, executive director of the Independent Oil and Gas Association of New York, repeated the industry assertion - backed by a 2004 EPA study - that there has not been a documented case in which hydraulic fracturing resulted in contaminated ground water.

"Ample evidence already demonstrates the safety of hydraulic fracturing," he said.

However, the industry officials conceded that have been problems arising from poorly cemented wells, from methane migrating into water tables, and from surface spills of waste water.

Rachel Triechler, chairwoman of the Sierra Club's shale gas task force in New York state, said there is plenty of circumstantial evidence that hydraulic fracturing has contaminated ground water, but tests are not usually done before the drilling occurs, making it hard to state conclusively the source of the pollution. And there have been well-documented cases of surface pollution, she added.

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