The Madness of New York
A tale of two states on exploiting the boom in shale natural gas
Wall Street Journal
December 16, 2010

New York State urgently needs more jobs and new tax revenue, so naturally its political class has decided to reject one of the best economic opportunities in decades. And people wonder why Albany is bankrupt.

Governor David Paterson made headlines last weekend when he vetoed legislation that barred natural gas exploration in the Empire State. He then undercut his own pro-investment message with an executive order that is almost as restrictive. Imagine California, 1848, closing its border to gold miners.

The U.S. is in the early stages of what can only be described as a Shale Gas Rush. About a decade ago the drilling industry made a technological breakthrough in attempting to tap into the Barnett Shale formation in north central Texas. America was suddenly able to extract, cost-effectively, huge amounts of natural gas from tightly packed shale rocks.

That has opened up vast new exploration possibilities, including the 65 million-acre Marcellus Shale formation, which extends from Ohio and West Virginia up through Pennsylvania and upstate New York. A recent Penn State study estimates that Marcellus is the second largest natural gas field in the world. The study notes that Pennsylvania had $4.5 billion in Marcellus-related investment in 2009, generating nearly $400 million in state and local tax revenue and 44,000 jobs.

And New York? Once a manufacturing powerhouse, the upstate economy has withered under global competition and the taxes and mandates that flow out of corrupt, liberal, government union-dominated Albany. The region has lost 90,000 manufacturing jobs since 2001.

The drilling industry could compensate with new jobs in construction, trucking, engineering and a variety of attendant services. The industry also pays royalties and leases land from landowners, who pay taxes and buy goods. A July study by the American Petroleum Institute estimates production in the Marcellus could provide $15 billion in economic output and $2 billion in state tax revenue over nine years.

Instead, New York has imposed a de facto drilling moratorium because of dubious environmental fears. Shale drilling relies on hydraulic fracturing, the process of blasting a solution that is 99% water and sand (less than 1% chemicals) into rock to release gas deposits. Fracking has been commercially viable since 1949 and is responsible for 30% of domestic oil and gas production.

The recent advances in shale gas have come from combining fracking with "horizontal" drilling, which permits wells to move laterally under the surface. Horizontal fracking lets the industry get much more energy out of one well. The industry uses steel casing and cement to prevent fracking fluid from polluting wells and underground reservoirs.

The Environmental Protection Agency and the Ground Water Protection Council, a nonprofit made up of state regulatory agencies, have published studies concluding that fracking is safe. While energy exploration is never risk-free, the Ground Water Council hasn't found a single documented case of fracking having polluted local ground water.

That hasn't stopped New York's powerful green lobby from predicting disaster, and three years ago the state's Department of Environmental Conservation obliged by announcing it would rewrite all regulations, stopping new permits in the meantime. The legislature went further and outlawed even vertical fracking.

Mr. Paterson vetoed this, but his executive order backs the agency ban on horizontal fracking—the real future of the industry—until the new regulations are issued, which he insists should not happen for at least six months. The agency issued draft regulations a year ago that are so onerous they would guarantee that drillers go elsewhere.

Contrast that with Pennsylvania, which has for the most part welcomed the drilling industry. Between July 2009 and June 2010, Pennsylvania's 632 Marcellus wells released 180 billion cubic feet of gas, doubling state production. The Keystone State has used this development to attract more investment in company headquarters, training facilities and service sites—brick-and-mortar capital lost to the Empire State.

It is also positioning itself to lure new manufacturing on the promise of cheap natural gas. Bowing to liberal pressure, Pennsylvania Governor Ed Rendell issued a moratorium earlier this year on drilling permits on state land, though the drilling boom on private land continues. Both Pennsylvania and Canada are looking to lock in gas contracts with businesses in New York, which is one of the country's largest users of natural gas.

Political elites in Albany and New York City live off Wall Street and other service industries, and they think of upstate New York as an environmental museum: a nice place to visit on the weekend but they wouldn't want to develop the resources there. No wonder the once great Empire State can't pay its bills and keeps losing taxpayers to places that want their citizens to prosper.