

AP: PA Gas Drilling Brought \$3.5B in 2011

KEVIN BEGOS, Associated Press

PITTSBURGH (AP) — Marcellus shale gas wells in Pennsylvania generated about \$3.5 billion in gross revenues for drillers in 2011, along with about \$1.2 billion in West Virginia, according to an analysis by The Associated Press.

But experts say that a sharp drop in wholesale prices over the last year means that in the future much more money will be made — and more jobs created — by petrochemical companies that process the gas into other industrial and consumer compounds.

The Marcellus is a gas-rich rock formation thousands of feet underground in large parts of Pennsylvania, New York, Ohio, and West Virginia. Over the last five years, advances in drilling technology made the shale accessible, leading to a boom in production, jobs, and profits — and a drop in natural gas prices for consumers.

In 2011 the formation produced just over 1 trillion cubic feet of gas in Pennsylvania, and about 350 billion cubic feet in West Virginia. Ohio has almost no Marcellus production, but is exploring other gas fields. New York hasn't allowed drilling.

"We are producing record levels of natural gas," said Fadel Gheit, a senior oil and gas analyst with Oppenheimer & Co. in New York. Gheit expects the trend to continue, because the industry has mastered horizontal drilling deep underground. That means the wells don't just go down, but also out thousands of feet through the gas-rich shale.

Just a few years ago drillers were being paid \$4, \$5 or even \$6 for each 1,000 cubic feet of gas. Now the price is about \$2.50, meaning industry revenues may drop this year even as production grows.

The AP estimated 2011 revenues using an average wholesale price of \$3.50 for that year. But at current volumes each \$1 drop in price costs the drilling industry a billion dollars or more, in Pennsylvania alone.

Drillers are slowing production in an attempt to boost prices, but Gheit thinks the trend of plentiful, cheap natural gas will continue, mostly because the industry continues to find new, deep underground fields that can be profitably drilled.

"We're really just at the tip of the iceberg," he said, since at least 10 new and previously unknown gas fields will go into production over the next year around the country.

Gheit and others note that the gas that's produced represents only part of the money generated.

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Patrick Creighton, a spokesman for the Marcellus Shale Coalition, an industry group, estimated that it costs the industry about \$5 million to bring a well into production. With about 2,200 active wells in the state, that comes to \$11 billion in additional investments, mostly over the last four years. The industry is also building or planning billions of dollars of new pipeline construction.

Creighton said the minimum royalty in Pennsylvania is 12.5 percent of well revenues, meaning property owners here were paid more than \$400 million last year.

Gheit said the real value of shale gas is that the lower energy cost is making American industry more competitive around the world. That opens doors for long-term investments, such as Shell Oil's plan to build a huge petrochemical plant in western Pennsylvania.

"In my view this is much bigger than anything we've seen in our lives" as far as a new energy development, Gheit said of shale gas.

Kathryn Klaber, president of the Marcellus Shale Coalition, said the current low natural gas prices benefit consumers throughout the state.

"Every single Pennsylvanian has more money in their pocket today — to save, invest and help make ends meet — as a result of plentiful natural gas development from the Marcellus Shale," she said.

The AP analysis of production and revenue used data from the Pennsylvania Department of Environmental Protection, Bentek Energy LLC, and the U.S. Energy Information Agency.

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