PA to Remain Center of Gas Drilling

KEVIN BEGOS, Associated Press

PITTSBURGH (AP) — Like a runner who's gotten a big head start in a race, Pennsylvania may be set to dominate natural gas production in the Marcellus Shale region for many years, experts say.

With billions of dollars already invested in leases, wells and related infrastructure, the state is a cost-effective place to do business. And a plunge in wholesale prices has made being thrifty a must for some companies, dealing a potential blow to would-be upstart New York.

Fadel Gheit, an oil and gas analyst with Oppenheimer & Co. in New York City, says he expects Pennsylvania to be the center of activity for the next few years, if not longer.

"The industry will always stay with what they've got," said Gheit, adding that for many companies, there's less risk sticking with a state — and with regulations — they know. New York, he added, is generally seen as a more liberal state than Pennsylvania, and thus more prone to imposing stricter rules on drilling.

An existing base of suppliers also helps, Gheit said, as well as a growing network of pipelines linking the Pennsylvania wells to regional and national hubs.

Shell Oil Co. has also chosen western Pennsylvania as the site for a huge new petrochemical plant because that region has more of a type of gas that can be turned into industrial and consumer products, such as plastics.

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

The industry has been so excited about prospects in Pennsylvania that there's a large backlog of partly finished wells that will keep companies busy for years. While many people think of the iconic drilling rig as the sign of a well, that's just one part of the process.

In Pennsylvania thousands of wells have been put into production over the past four years, but about 2,000 more have been drilled but not completed, leaving plugged holes in the ground. The backlog means it is far cheaper for a company to bring those wells into production than to start others from scratch in neighboring states.

A new report from Bentek Energy, which examines national industry trends, estimates that even if companies stopped drilling new wells in northeast Pennsylvania, production could grow by 31 percent over the next 16 months as the

partly drilled wells get hooked up.

Bentek also found that in April, Pennsylvania's Marcellus production hit about 5.3 billion cubic feet of gas per day, with another 1.5 billion coming from West Virginia. That's about seven times the rate of just three years ago, and the boom has led to a steep drop in wholesale natural gas prices.

"In order for the industry to really breathe easier, you need $4 gas. Anything below that is survival mode," Gheit said, noting the current price is about $2.70 per wholesale unit. Earlier this year, prices fell as low as $2.

The price pressure means that potential deals in other areas now move like molasses, instead of the Wild West atmosphere of a few years ago. For example, in late April, a drilling rights deal between Houston energy company ECorp International and a group of western New York landowners stalled, partly because of price pressures. ECorp said that "much more work" was needed to complete the deal to lease the land for future drilling, and that the parties had "gone back to the drawing board."

Gheit said price pressure has led to other trends that favor upstarts Ohio and West Virginia over New York. Many drillers are shifting rigs away from so-called dry natural gas — roughly like what a stove uses. Instead, they're seeking oil deposits or "wet gas," which fetches a premium price because it contains more raw energy and can be used for petrochemical plants like the one Shell plans. But the most promising wet gas areas are in western Pennsylvania, Ohio and West Virginia, not New York.

Patrick Creighton, a spokesman for the Marcellus Shale Coalition, an industry group, noted that some major companies have already signed leases to drill in New York. If that state allows Marcellus drilling with manageable regulations, he expects those companies to move ahead. But Creighton said that if New York's regulations end up being far more restrictive than other states, drilling will move very slowly.

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