Marcellus Reserves Larger than Expected

KEVIN BEGOS,Associated Press

PITTSBURGH (AP) — There's been plenty of debate over the Marcellus Shale natural gas field, but new research adds a twist that could impact political and environmental battles. Two independent financial firms say the Marcellus isn't just the biggest natural gas field in the country — it's the cheapest place for energy companies to drill.

One of the reports adds that the Marcellus reserves that lie below parts of Pennsylvania, West Virginia, Ohio and New York are far larger than recent government estimates, while another said the powerful combination of resource, cost and location is altering natural gas prices and market trends across the nation.

The Marcellus could contain "almost half of the current proven natural gas reserves in the U.S," a report from Standard & Poor's issued this week said.

Another recent report from ITG Investment Research, a worldwide financial firm based in New York, found that a detailed analysis of Marcellus well production data suggested that federal government estimates of its reserves "are grossly understated," according

The new information increases the likelihood that natural gas will be used for more and more energy needs, such as city buses, industrial use, and electric power generation, according to Manuj Nikhanj, the head of Energy Research at ITG. And though low wholesale prices have squeezed drilling companies' revenue, the S&P report says the Marcellus has the lowest production cost of any natural gas field in the nation, adding to the likelihood of a continued boom.

"The amount of resource that's available at relatively low cost is fairly enormous," Nikhanj said.

The Marcellus is a gas-rich formation thousands of feet below much of the four states, but current production is centered in Pennsylvania and West Virginia.

Earlier this year, the federal Energy Information Administration sharply lowered its estimates of Marcellus reserves, from 410 trillion cubic feet down to 141 trillion cubic feet. That adjustment was widely reported, including by The Associated Press.

But that lowered estimate doesn't correspond with actual well production, said Nikhanj. He said their analysis shows that the Marcellus contains about 330 trillion cubic feet of gas, more than double the size of the next largest field in the nation, the Eagle Ford in south Texas.

Some financial firms and critics of gas drilling had suggested that the EIA estimates supported theories that Marcellus production might decline more rapidly than expected, and thus be far less profitable for energy companies. But Nikhanj said a review of actual Marcellus well data shows that on average they're producing more gas than expected, not less.

Jonathan Cogan, a spokesman for the EIA, pointed out that its reports have always noted that Marcellus estimates "are likely to continue evolving as drilling continues and more information becomes publicly available." Serious drilling in the Marcellus began only a few years ago, and many areas still have few or no wells, which makes the task of estimating reserves more difficult.

The S&P report said the growing output from the Marcellus is putting pressure on energy companies in Canada and the Rocky Mountains, which have traditionally exported large amounts of gas to the lucrative Northeast market. But it appears that in the near future, the Northeast will get most or all of its gas from the Marcellus.

The S&P report also said Marcellus production also means there will likely be more and more pipeline construction in the Northeast.

"As people get more comfortable with the total amount of resource that has now been discovered, as that starts to sink in, I think natural gas will continue to be a fuel of choice," Nikhanj said.

Even critics of gas drilling should accept that it isn't going away, said the head of one leading Pennsylvania environmental group.

"We should realize by now this is not going to be a short play. It's going to be here, probably for generations, because it's so productive," said George Jugovic Jr., president of PennFuture.

That's a mixed blessing for environmental groups, Jugovic said.

"It lengthens the horizon. It means that we have time to get it right because they're not going to be in here and out," Jugovic said of drilling companies, yet "at same time that it raises the imperative of getting our regulations in order."

Ironically, the vast production coming out of Marcellus wells in Pennsylvania and West Virginia may have given some breathing room to New York, where residents, government officials and gas drillers are engaged in an extended debate over whether to allow the new gas production method known as hydraulic fracturing, or fracking. Fracking is under moratorium in New York until the debate is resolved.

Hydraulic fracturing has made it possible to tap into deep reserves of oil and gas but has also raised concerns about pollution. Large volumes of water, along with sand and hazardous chemicals, are injected underground to break rock apart and free the oil and gas.

Regulators contend that overall, water and air pollution problems are rare, but environmental groups and some scientists say there hasn't been enough research on those issues. The industry and many federal and state officials say the practice is safe when done properly, and many rules on air pollution and disclosure of the chemicals used in fracking are being strengthened.

"This excess production has really taken the pressure off New York's moratorium. It's given them more time" to decide whether to allow drilling, Jugovic said.

Nikhanj said that strictly from a market standpoint, New York's share of the Marcellus may not matter.

The talk of a continued boom had one energy expert urging caution.

"Sounds hopeful for the local economy, but the energy business has always been boom-and-bust, so long-term predictions are pretty risky," Carnegie Mellon University professor Jay Apt wrote in an email.

"Perhaps we will get lucky," Apt wrote, but added that because Pennsylvania doesn't directly tax gas output or deposit some of the proceeds of its fee into a trust fund, the Marcellus benefits will run out one day. That's in contrast with Alaska, where residents "get an annuity check from the Permanent Fund set up with their severance tax."

The S&P report is called "How The Marcellus Shale Is Changing The Dynamics Of The U.S. Energy Industry."

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