U. S. Environmental Protection Agency
E-Clips
Prepared by the Office of Public Affairs

7/2/2010

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JULY 1, 2010, 3:31 P.M. ET

Challenges To Shale-Gas Drilling Mount In Pennsylvania (Wall Street Journal)

By Christine Buurma Of DOW JONES NEWSWIRES NEW YORK (Dow Jones)--Against the backdrop of the Gulf of Mexico oil spill, onshore natural-gas production in Pennsylvania is facing sharper scrutiny as concerns about the environmental impact of oil and gas drilling build.

Pennsylvania has become a focal point amid a nationwide boom in natural-gas production as lawmakers, residents and environmentalists struggle to determine how to reap the economic benefits of drilling without causing irreparable environmental damage. In 2008 alone, Pennsylvania garnered $2.95 billion in economic benefit as drilling flourished, according to a study by Pennsylvania State University, and the governor this week cut a deal with lawmakers to start taxing output. But a series of well accidents has raised fears about water contamination and prompted calls for a statewide moratorium. While the spill in the deep waters of the Gulf of Mexico may bode well for some onshore energy producers, the accident has ratcheted up worries about the environmental threat from oil and gas production.

"Gas drilling is an industrial activity, and there are going to be some environmental impacts even when it's done well," said John Hanger, the secretary of the Pennsylvania Department of Environmental Protection, or DEP. "What we're not willing to accept is gas migrating off-site, sloppy handling of materials, leaks and spills."

Pennsylvania has seen a meteoric rise in gas-drilling activity as improved technology has made it easier to extract gas from deeply buried shale-rock formations. Companies including EOG Resources (EOG), Range Resources Corp. (RRC) and Cabot Oil & Gas Corp. (COG) have flocked to the state to tap the prolific Marcellus Shale. So far this year, 575 shale wells have been drilled in the state--up from just two in 2005. A Pennsylvania State University study estimates that shale-gas production in Pennsylvania could account for more than 6% of the country's total current gas consumption by 2020. The shale industry could generate $13.5 billion for the state economy and 175,000 jobs in 2020, according to the study.

Gov. Ed Rendell, a Democrat, reached an agreement with legislative leaders earlier this week to introduce by Oct. 1 a tax on production, though details have yet to be negotiated. But even as the state figures out how to bring in revenue from gas development, proposals for stringent regulations and even to halt drilling outright remain on the table. Any gas-production measures passed in the Keystone State could serve as a blueprint for other states such as New York, which has a de facto moratorium on shale-gas drilling until state regulators issue final guidelines on the practice.

To extract gas from shale, drillers employ hydraulic fracturing, whereby millions of gallons of water, sand and chemicals are blasted underground at high pressure to crack the rock open, releasing gas. Concerns about drinking water contamination and other potential environmental effects from shale-gas drilling have grown after two recent blowouts, or uncontrolled releases of gas, at wells in Pennsylvania and West Virginia.

Last week, state regulators allowed EOG to resume hydraulic fracturing in the state, three weeks after a well blowout prompted the Department of Environmental Protection to order EOG to halt drilling. In September, Cabot Oil & Gas Corp. said faulty piping connections had caused two spills in Susquehanna County, while a third was caused by a ruptured hose during a pressure surge.

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Oil and gas producers have been working with the DEP to develop tighter regulations on drilling. The agency has proposed stricter rules on the discharge of drilling wastewater, and has called for mandatory buffer areas to protect the state's rivers and streams. The DEP also plans to issue new rules for drilling procedures, including the cementing and use of steel casing to stabilize gas wells. Regulators hope to finalize those rules in October, the DEP's Hanger said.

Cabot Oil & Gas has "worked hand-in-hand" with the DEP on the agency's proposed cementing and casing requirements for wells, but the company believes the planned wastewater rules may be too restrictive, said George Stark, the company's director of external affairs.

"We think drilling can be done in a safe, environmentally protective way," Stark said.

Other gas producers either didn't immediately provide comment or referred questions to an industry group.

But some lawmakers and environmental groups believe the DEP's proposals still don't go far enough. State Rep. Phyllis Mundy (D) last week introduced a bill calling for a moratorium on shale drilling in Pennsylvania and another measure prohibiting drilling within 2,500 feet of a primary source of supply for a community water system, such as a lake or reservoir. Mundy has said the moratorium measure is unlikely to pass, but the other bill is garnering support and could be passed as an amendment to a larger proposal.

"We're sending the correct message, but the industry ultimately will decide its record," Hanger said. "The industry really needs to be careful about what kind of bed they're making."

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