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The holiday season -- time to take stock of drilling for gas and oil in Ohio

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As 2012 comes to a close, it's a good a time to take a look at some of the predictions surrounding the Ohio shale play that were made early in the year, and to make a few guesses at what we will see in 2013.

While it is hard to get our hands on many of the data points, there is one key number that helps to project the others and that is the number of wells. In early 2012, sponsored by a broad base of businesses, a consortium of university professors lead by Cleveland State University released a study entitled “An Analysis of the Economic Potential for Shale Formations in Ohio.” It was not the first economic impact study to be released about the shale play in Ohio, but it was the most conservative, and it uniquely built an Ohio-model for economists to update as the play grows.

Key to that report was a prediction that Ohio would have 160 horizontal shale wells completed in 2012 for a total of 193 wells in production. So how did the team do? The Ohio Department of Natural Resources, the state-level regulatory agency for the industry, reported as of Dec. 1 that Ohio had 195 completed horizontal wells in the Utica and Marcellus shale formations. In my book that tells me their predictions were right on target.

For 2013, the economic analysis projects another 650 completed wells for a total of 843 by the end of the coming year. Given that the state reports a total of 482 permits have been issued, the 2013 numbers seem very realistic.

2013 is likely to be the year of the midstream, which includes the development of pipelines and gas-processing facilities. Without it, there is no way to get these products to market, and those well completion numbers could stagnate. Major players including NiSource and MarkWest are investing hundreds of millions in capital and expect to have production facilities operating in the coming year. Let's hope it is enough to keep the drilling rigs busy.

So what about production? Based on loose extrapolations of dry gas alone, I have been told that if the 30 wells Ohio has in production continued for nine years, it would equal 9 TCF (trillion cubic feet). Interestingly, 9 TCF of production is what Ohio tallied over 150 years from 280,000 vertical wells. Yes, decline curves will make that point impossible, but with a 1,918 wells projected by the end of 2014, the production numbers could be off the charts.

Jobs are also a key metric. And not just any jobs, but Ohio jobs filled by Ohioans. This issue was highlighted last week by Gov. John Kasich, who once again gave us his definition of “foreigners” as those from Louisiana, Texas or Oklahoma coming into Ohio to fill the openings in the Ohio shale fields. Ohioans are certainly benefitting from the land deals that we saw at a fever pitch in 2011, but as the state's chief executive, he is rightly focused on ensuring that Ohioans benefit from the increased employment as well.

The Ohio economic impact analysis projected a somewhat slow ramp-up in employment in

2011 and 2012, with job numbers under 15,000. But 2013 onward is expected to bring exponential growth in jobs, with projections approaching 66,000 in 2014.

There are certainly many issues that impact unemployment numbers, but if you look at a couple of Ohio counties that are experiencing investments from the Ohio shale play we see good things. In 2009, rural Carroll County and more urbanized Stark County saw average unemployment rates of 13.3% and 11.1% respectively. The most recent labor statistics show those counties with unemployment rates of 6.5% and 6.2%, compared with a national average unemployment rate of 7.5%. Is all of this from the shale play? No, but it is hard to ignore in the scope of industries that are impacting growth in Ohio.

On the national scene, last week was highlighted by the release of a key economic report on natural gas exports that indicated greater exports would prove beneficial to the U.S. economy. The Obama Administration said it was waiting on the report produced by NERA Economic Consulting (part of the Marsh & McLennan Cos.) before it would make any regulatory decisions on approving additional exports.

Not surprisingly, the report concluded that the U.S. economy would experience economic growth if energy exports in the form of LNG were increased. These exports, which would create new markets for American natural gas, certainly would mean good things for the growth of the shale plays which now account for one-third — and growing — of all domestic natural gas production. But they will need to be weighed against the potential for an increase in domestic prices that will impact manufacturers and chemical companies as well as household consumers.

Last week also brought us the U.S. Energy Information Administration's (EIA's) report: "2013 Annual Energy Outlook," and it found that natural gas production is again anticipated to grow significantly. By 2040, natural gas production is projected to rise to 33.21 TCF up from 23.06 TCF in 2011, according to the EIA. If export projections are correct, and they rise to 4.4 BCF (billion cubic feet) per day, we would be looking at a total annual export of 1.6 TCF. Will a 3% to 4% export impact domestic prices significantly, that is up to the economists to predict, but it is certain that without increased demand growth in some form, we may not see the full potential of the shale impacts on the economy that all of us hope for.

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