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What happened to the shale boom?

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By JIM SAMUEL

I am frequently asked to speak to a wide variety of audiences about the great potential of the development of shale energy resources in Ohio. In beginning preparation for my next speaking opportunity, I was surprised the title given to my presentation was, “What happened to the shale boom?”

Dismayed at first, I quickly became enthused by the chance it might give me to bring some good news to an audience that might be expecting the worst. Having read recent headlines about the “fading Ohio oil dream,” or the all-too-frequent negative commentary by some media outlets and public officials, I understand how the seminar title emerged.

Having the opportunity to get out and talk to people in the communities where the action is taking place, and interfacing with the companies making it happen, it is clear that the “boom” is happening. In its early stages, you have to know where to look for it.

Recall the very positive — but also very limited — data associated with producing wells in Ohio.

Ohio has an antiquated, annual, well-log reporting schedule, as opposed to one that's quarterly or monthly. Last year, 2012, will likely be considered the baseline year for shale production in Ohio. Data from 87 wells was made available; of those, only three wells were producing hydrocarbons for at least 300 days, and 18 were in production for *less than a week*. While those 87 wells accounted for just 0.2% of all the oil & gas wells in Ohio, they produced 12% of the oil and 16% of the natural gas in Ohio.

Take a look at the rig count. Based on the industry standard available to the public, of the 114 drilling rigs operating this week in the tri-state area of Pennsylvania, Ohio and West Virginia, 34 are in Ohio. That marks a steady increase in Ohio-based rigs while the number in Pennsylvania has dropped off. A year ago, there were 127 rigs in the tri-state area, with only 19 operating in Ohio. Ohio's rig numbers have increased, while the number over the border have dropped.

Building out the bottleneck

The current “bottleneck of the boom,” if there is any delay to be identified, is the buildout of the midstream — the system of pipelines and processing plants that will take the hydrocarbons from the well pad to the end-user, whether it's a chemical company, a refinery or your BBQ grill. The midstream is coming on strong and is the focus of 2013. By best count, there are seven major midstream projects with an estimated $7 billion to $10 billion of capital investment going into Ohio.

Take, for example, the Pennant Midstream project, a joint venture between NiSource, a company with nearly a century of history in Ohio, and the midstream affiliate of Hilcorp, the largest producer of crude oil in Louisiana. These two companies have begun building a $300 million gathering system and processing plant that not only will process hydrocarbons for the joint venture, but will bring hydrocarbons to the system from other wells across Ohio and Pennsylvania. They already have talked publicly about plans to invest between $1 billion and $1.5 billion in Ohio. That is a solid investment today with a huge growth factor tomorrow.

And what about the spending being felt in many parts of rural Ohio? The 13 “strong shale counties,” as defined in a study by the Levin College of Cleveland State University, saw an average 21.1% increase in sales activity in 2012 from 2011. These same counties experienced a 9.8% decrease in 2009 from 2008. In raw numbers, you are looking at increased sales activity of $2.6 billion in just these 13 counties.

Looking more closely, sales tax receipts in Carroll County and Harrison County exceeded a 31% increase in one year. Local officials cannot remember growth like this ever occurring, and outside of a rate increase, tax and data experts I talked to across

Ohio speculate that a 25% or 30% increase in business activity in a one-year period of time is likely unprecedented.

To measure another comparison, turn for a moment to the recession of 2001. Based on a decade of reports from the state of Ohio, sales tax receipts in fiscal 2011 rose 24% above 2001. That is a decade of growth and rising prices to produce an increase equivalent to what the shale counties are seeing in one year.

Lastly, there is increased community infrastructure investment that is taking place. At a recent meeting in Carroll County, the county engineer reported that his office's annual budget was about $600,000. Yet in 2012, 61 miles of road improvements at a cost of about $20 million was completed at the expense of the oil and gas industry.

So what happened to the shale boom in Ohio? It's booming, the growth is there and the investments are tangible. Perhaps the “midstream bottleneck” making the growth rate a little slower than some anticipated is actually better, allowing communities to adjust and regulators to ensure safe industry growth and expansion for years to come. The boom is here; it's just not so sudden and all-consuming that it's forcing people to react with knee-jerk development. Instead, it's allowing for a slow and steady development of sensible economic infrastructure.

For what it's worth, a recent statistic from Pennsylvania jumped out at me last week. The Allegheny Institute for Public Policy looked at the gas royalties being paid to Pennsylvania landowners in the development of the Marcellus Shale. Last year they collected $731 million in income, a 6,600% increase from five years ago!