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Tri-state area's gas processing is growing

By **DAN SHINGLER**
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Anyone on top of the right rocks can drill for shale gas, but the Appalachia region is shaping up to become more than just a lucky exporter of raw commodities in terms of natural gas.

The region is on the road to becoming a processing center, producing raw materials for the chemical and plastics industries, as well as furnaces, here and on the East Coast.

That profitable processing largely has been done on the Gulf Coast, and no one is saying the northern Ohio River region will rival the behemoth industry housed there. But some recent events, taken together, indicate that the tri-state region of Ohio, Pennsylvania and West Virginia on the Ohio River will end up working with more of the ethane, ethylene and other valuable natural gas byproducts than many thought would be the case just a few weeks ago.

"It means that there will be more ethane and natural gas liquids for local or regional processing and production," said Jim Samuel, founder and CEO of Columbus-based Capitol Integrity Group, which consults for the oil and gas industry on strategic issues.

Samuel was responding to a question about the effect of a major new ethane cracker being announced for the Utica and eastern Marcellus shale, followed by the apparent cancellation of a pipeline that would have taken ethane and other natural gas liquids (NGLs) to the Gulf for processing and refining.

First, Brazilian company Odebrecht, a big global player in the oil and gas service and processing industries, announced March 26 that it was moving forward with plans to spend \$4 billion to \$6 billion to build an ethane cracker on 300 acres it already has purchased along the Ohio River in Parkersburg, W. Va.

It was a vote of confidence in the future NGL production of the Utica and Marcellus shales.

"People want to be here; this is where the wet gas is," said Tom Stewart, executive vice president of the Ohio Oil and Gas Association.

Odebrecht officials said as much earlier.

"We want to be close to our markets, so it was a significant consideration," company vice president David Peebles said of the site's location when he announced that driller Antero Natural Resources was promising to supply Odebrecht with 30,000 barrels of ethane per day. That means the company already has lined up half of what his new plant will need to run at full tilt, three to four years before it even will start.

Pipeline clogs



The Odebrecht plant is a big deal. It's even bigger than the \$3 billion cracker Shell has said it "might" build along the river further north, near Beaver, Pa., which has had local economic developers salivating for more than a year now.

At the same time, a pipeline that had

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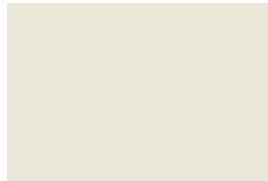
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planned to ship NGLs from the Utica and Marcellus shale plays to Texas apparently has failed to attract enough interest to be built, for now at least.

The Bluegrass Pipeline was put out to pasture at the end of April, when its

backers, Williams Cos. and Boardwalk Pipeline Partners, said they were halting investment in the project due to a lack of commitments from NGL producers. In other words, drillers weren't willing to promise they'd send their products to the pipeline for shipment.

"Recently, we reached a point in the development of the project where we needed to make some important decisions about timing and additional investment. While data show there will soon be a need for a large-scale solution like Bluegrass Pipeline to meet market needs, potential customers to-date have so far chosen to focus on local solutions," wrote Williams and Boardwalk representatives Bill Lawson and Michael McMahon in an open letter on the pipeline's website. They added that they'll continue to drum up interest, but for now the valves of capital are shut.

That might be some gloss, too. The project was facing stiff opposition, especially in places like Kentucky, which saw less to gain than states on either end of the line and was threatening to eliminate eminent domain as a means of securing necessary rights of way.

But for the foreseeable future, having no Bluegrass line means more NGLs will stay in the region where they were produced, processed by companies such as Odebrecht, perhaps Shell and maybe even others. Odebrecht's Peebles, for one, both predicts and welcomes the formation of an ethane-based industry cluster in the region.

The quest for industry

The holy NGL-filled grail for economic developers — not to mention politicians in all three of the Appalachian shale states — would be to build an ethane chain and not just become a commodities pump for value-adding industries in other regions.

Done right, the chain could extend from a mile down in the Utica shale where the gas is found, right through the ethane, polyethylene plants and into the plastics and specialty chemical industries that already exist in parts of the region.

That's the promise preached by entities such as Team NEO in Cleveland, and studied by the state's economic development arm, JobsOhio. The latter recently engaged the Maxine Goodman Levin College of Urban Affairs at Cleveland State University to study the potential downstream impacts of natural gas and NGL production in Ohio.

Levin College executive in residence and researcher Andrew Thomas said the recent events are at least some evidence that the local region is making progress in keeping more ethane here.

"Yes, this is good," Thomas said in email correspondence. "It would be bad if they shut down plans for the pipeline because they do not anticipate sufficient production from the Utica to justify the pipeline. But they are not saying this. They are saying that the producers are choosing to process locally rather than to send it to the Gulf Coast for producing, and for that reason they are not building the pipeline."

The state shouldn't cry "gusher" quite yet. It's not as though there aren't already other pipelines already in place and available to carry NGLs from the Utica to Texas, noted OOGA's Stewart.

"There's one that goes through my backyard," he said.

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