



NATURAL GAS: A rush before the proof of shale gold *(Tues., July 22, 2014)*

Elana Schor, E&E reporter

In the classic film "Field of Dreams," a farmer builds a baseball diamond after hearing a premonition that "If you build it, he will come." In North Carolina, the same spirit has inspired two laws and more than 100 pages of regulations clearing the way for shale gas rigs that may never arrive.

The state began to embrace hydraulic fracturing after Republicans took over the Legislature in 2010 and pushed to end a six-decade ban on horizontal drilling, fracking's partner in the technological upheaval that shook loose eye-popping volumes of natural gas in the nearby Marcellus Shale. The U.S. Geological Survey increased its projection of recoverable resources in the Marcellus by a factor of 40 after fracking swept the nation, and many in the GOP hope that North Carolina's Triassic shale basins could prove similarly underestimated.

In a concession to fracking foes, the Legislature agreed in its 2012 fracking law to require a second vote on starting to drill after a 12-member panel, the Mining and Energy Commission, finished work on regulations. That proviso perished last month when Gov. Pat McCrory (R) signed a plan that paves the way for permits by spring.

But even as they vow that "thousands of jobs will be created" by opening the state to drilling, as shale-region Rep. Renee Ellmers (R-N.C.) put it in an interview, shale gas backers are uncertain about how many industry suitors will materialize and how quickly -- not to mention the true size of the Tar Heel State's recoverable reserves.

A 2012 state projection based on only two test wells placed North Carolina's total shale gas potential at about 2 trillion cubic feet (tcf), or slightly more than USGS offered weeks later in a separate report. That estimate is equivalent to about seven months of natural gas production last year in Pennsylvania and close to a 2002 USGS estimate for the entire eight-state Marcellus that rocketed up to 84 tcf almost a decade later.

State Geologist Kenneth Taylor sought to temper expectations in an interview this month.

"I never expected Exxon to come here," Taylor said. "I expect a regional company to come here. The majors deal with countries, not states."

Exxon Mobil Corp. and Royal Dutch Shell PLC own two of the biggest natural gas producers in the Marcellus. But the likelihood of even smaller companies drilling in North Carolina early next year when permits are set to become available is "not that high," said Mining and Energy Commission Chairman James Womack, whose panel will hold public hearings next month on its still-pending fracking rules.

Despite the Legislature's "strong will to see North Carolina get into the energy business," Womack added in an interview, industry might hold off "because the size of the play in North Carolina is very small and the majority of the infrastructure here is generally immature."

But size doesn't matter to Dallas Woodhouse, formerly North Carolina director for the conservative advocacy group Americans for Prosperity.

"North Carolina has a burgeoning wine industry, and people who do it make some money out of it," said Woodhouse, who this year founded a conservative nonprofit dubbed Carolina Rising to help support McCrory's agenda. "We're never going to be California, but we don't have to be California in wine to make it worth doing."

When it comes to fossil fuels, he finished, "we don't have to be North Dakota to make it worth doing."

Environmentalists are more confident in contending that Republicans overreached in their rush to reap the riches of a boomlet that could prove elusive. The Natural Resources Defense Council (NRDC) and the Southern Environmental Law Center (SELC) are leading a \$1 million-plus campaign to make the fracking law a liability for four GOP state senators who embraced it, and greens cheered May polling that showed favorable ratings for three of those four tilting negatively by more than 25 percentage points after six weeks of advertising.

Ed Yoon, NRDC's associate policy advocacy director, pointed to ongoing budget battles within the GOP majority in the North Carolina Statehouse over teacher salary increases as a ripe area for conservationists to draw contrasts ahead of Election Day.

"You don't have money to pay teachers, but you do have money to spend on sweetheart deals for gas companies?" Yoon asked of North Carolina Republicans. "Regular people will understand that and say, 'That makes no sense.'"

The state's embattled first-term Democratic U.S. senator, Kay Hagan, in May hammered re-election challenger Thom Tillis (R) over language in the original fracking bill that would have made disclosure of chemicals used in the practice a felony. The state Senate later downgraded disclosure to a misdemeanor before sending the measure to the House, where Tillis leads the chamber.

Yet the potential risks and rewards of drilling in shale gas deposits thought to lie largely beneath three central North Carolina counties might not make a top 10 list of controversial issues in a state riven by combat over cuts to unemployment benefits, a voter identification law that alarmed minorities and a massive spill of toxic coal ash from a dump owned by Duke Energy Corp.

The political potency of the fracking push also may depend on how closely the public remains attuned as Womack's Mining and Energy Commission finishes work on more than 100 individual rules for shale extraction, touching on everything from bonding requirements to tree cover over well sites to "forced pooling" laws that could push landowners into taking a driller's leasing offer if a large majority of their neighbors consent.

"North Carolinians are focused on environmental issues more than ever in the past," state Rep. Pricey Harrison (D), a conservationist who tangled with Woodhouse in a televised debate over the fracking bill. "I think it could have consequences at the ballot box with the right pressure."

Even with enough pressure to power a horizontal drill, however, Democrats are likely to end the year outgunned in the Legislature. Most are looking to an anticipated 2016 gubernatorial race between McCrory and state Attorney General Roy Cooper (D), known for his environmental record. Whether

drilling will have begun in earnest by then or merely propelled land leasing and profit-making fantasies in central North Carolina remains an open question.

Harrison predicted that no serious industry commitment would arrive until natural gas prices at least double from their current level of under \$4 per cubic foot. The North Carolina Department of Environment and Natural Resources (DENR), where McCrory drew consternation for appointing a leader who has suggested that oil is a renewable resource, made much the same prediction in April 2012.

"It is not likely that North Carolina's shale play will be developed in the near term," DENR wrote. "Low prices make it less likely that the industry will move from areas already in production to a new and unproven area."

DENR also predicted that opening the state to fracking would create an average of 387 jobs annually and boost North Carolina's gross domestic product by \$292 million over a hypothetical seven-year drilling period. The state's GDP reached \$456 billion in 2012, according to the Federal Reserve, with the financial industry contributing more than one-fifth of that total.

Republican legislators who clamored to pass the fracking bill scoff at the suggestion that the economic benefit of possible fracking might prove too tenuous to proceed.

"We have every reason to think the USGS estimate is low and inadequate," state Sen. Buck Newton (R) told a radio interviewer in May, touting "a lot of interest from companies wanting to know when we're ready to go."

In an industry where the most inexperienced workers can earn \$75,000 per year, Newton added, "wouldn't 100 jobs be good?" Echoing an argument made often by fellow Republicans on the national level, he offered that "I'd much rather buy my energy from a fellow North Carolinian in Lee County or elsewhere than Venezuela or Saudi Arabia" -- both of which supply the United States with oil but not natural gas.

'They're going to do this'

Newton's conflation of oil and gas harks back to the first Republican attempt to open the state to fracking. Proposed in 2011, that bill told DENR to begin studying "the commercial potential of onshore shale gas resources within the state" while also committing then-Gov. Bev Perdue (D) to an offshore drilling compact with neighboring GOP-controlled states.

Perdue vetoed that energy bill, and though the state Senate overrode her, the House declined to act. When fracking returned to the Legislature's agenda in mid-2012, via the shale gas measure that created the Mining and Energy Commission and what environmentalists still lament as a broken promise to vote affirmatively again before drilling could start, Perdue had no such luck.

The House joined the Senate in overriding the ex-governor's veto by a one-vote margin, the deciding die cast mistakenly by an anti-fracking legislator who cried after realizing her error. Tillis, the state House speaker who is now the GOP's Senate nominee, declined to change the rules so the legislator could correct her vote.

"She was just devastated, because she was one of our environmental champions," said Nina Szlosberg-

Landis, a veteran conservationist and board member of the state's League of Conservation Voters (LCV).

Another Democratic legislator stunned greens in that late-night fracking vote by overriding Perdue's veto after signing a letter that urged the governor to reject the bill. A "deeply saddened" Szlosberg-Landis, then LCV's president, withdrew the "Rising Star" award her group had bestowed on that Democrat just two weeks earlier.

Months before the Legislature took up the fracking bill she would later veto, Perdue visited Pennsylvania at the invitation of its chief environmental regulator under ex-Democratic Gov. Ed Rendell, a stalwart supporter of shale gas. Perdue later spoke in favor of drilling so long as safety regulations and community support were in place, putting some distance between herself and environmental groups that have long warned of risks to groundwater and public health.

But one of those conservationists, Szlosberg-Landis, accompanied the governor on the trip. The LCV member recalled a Chesapeake Energy Corp. representative calling North Carolina's shale gas potential "cute" in a conversation with her and Perdue.

"When the [then-]governor and I were talking, it was very clear that this had very little to do with wanting to extract gas and create jobs, energy independence, all those buzzwords," Szlosberg-Landis said in an interview. "It was really clear that this was all about campaign money."

Perdue left office after one term at the end of 2012 and gave way to McCrory, a former Duke Energy executive with fuel production on his mind. The GOP governor said last summer that he hoped to see the Legislature move faster on fracking this year.

"But in the meantime, I'm going to be recruiting energy companies to North Carolina," McCrory told Raleigh TV station WNCN in August. "And I'm going to be setting up a process where we can possibly do both natural gas exploration inland and exploration offshore."

The fracking bill that he ultimately signed, in addition to criminalizing the disclosure of chemicals used in the gas extraction process and asking the state Commerce Department to study the prospects for a liquefied natural gas (LNG) export terminal in North Carolina, prevents local governments from setting zoning rules that would specifically limit oil and gas activity.

Another purple state riven by conflict over energy, Colorado, is playing host this year to a battle over ballot initiatives that would allow communities to constrain fracking within their borders.

North Carolina's lack of a home-rule tradition means "cities and counties are creations of the Legislature and they can be disbanded tomorrow by the Legislature," said Woodhouse, the conservative advocate who helped whip votes to override fracking vetoes under Perdue.

"If it's the Legislature's will to do this -- and it is -- and it's also the governor's -- and it is -- they're going to do this," Woodhouse said.

The suitors and the prize

Republicans' march to shale development drew interest from a handful of smaller companies, including some that had leased land before the fracking moratorium ended. One of them, Triassic Energy

Resources, engaged two Statehouse lobbyists this year: D. Bowen Heath of McGuire Woods, who also represents Halliburton Co., and Chris Emanuel, a close friend of McCrory's who served as the governor's senior political director during the 2008 and 2012 campaigns.

Emanuel said Triassic, a subsidiary of Texas-based Industry Petroleum, would begin with seismic studies and vertical drilling to gauge the potential of the state's shale basins and proceed to horizontal wells "if they need to," adding that "it's less expensive if you just go straight down."

Industry's president, Phil Barnett, founded the company while still working at First Liberty Energy, according to his LinkedIn profile. Barnett envisions natural gas eclipsing agriculture in importance to the North Carolina economy and wants to set up a community college program to train locals in energy extraction, Emanuel added in an interview.

"He's not just a taker," Triassic's lobbyist said of Barnett. "Of course he wants to make money from it, but he wants to provide jobs for this state."

Environmentalists fighting the fracking push, such as Southern Environmental Law Center senior attorney Mary Maclean Asbill, see the minimal interest from drillers as a signal that the Republican effort is propelled more by ideology than geology.

"There's nobody down here from a real oil or gas company pushing or drafting this legislation," Asbill said, "which makes us worried that it's just going to be one guy with one drill who's going to come down and mess up the aquifers."

Emanuel, however, said he had "worked very hard personally to make sure the General Assembly passes this bill in 2014" instead of waiting until next year. Asked why the fracking measure cried out for urgent passage, the former U.S. Airways pilot said legislators had "pontificated" about shale gas since 2010.

Womack, chairman of the MEC, vowed that his panel's final rules for shale gas development would effectively protect local residents. Any concern that smaller companies would prove more difficult to police, he said, tars smaller producers without proof they have poorer safety records.

"Most of the major environmental disasters" in America in recent years, Womack observed, "were from companies you can name off the tip of your tongue: the Exxon Valdez, British Petroleum."

A microcosm of Shale Nation

That infamous oil spill imagery plays a key role in influencing the state's search for shale gas is unexpectedly appropriate. The tension between economic promise and environmental risk that now strains North Carolina's fracking law mimics battles also raging in states with much larger fossil fuel prospects, from California to New York.

Despite the air of futility that now shrouds resistance to the already-passed fracking law in North Carolina, greens still hope to spotlight opposition to drilling at the MEC's three public hearings. Mining and Energy panel member Amy Pickle, also a program director at Duke University's environmental policy institute, said she hopes to see strong participation from the public "and, frankly, from industry" at those events.

The validity of the USGS projection that North Carolina has enough gas to feed its own demand for only about six years, making any gas extraction difficult to justify financially, "is really outside of our jurisdiction," Pickle said.

"That doesn't in any way diminish folks' overall concerns, their distrust of industry, their sense that it's not appropriate for North Carolina -- either for groundwater reasons, or for air emissions, or any other public health or environmental impact."

The MEC expects to receive upward of 10,000 comments on its draft fracking rules before a 60-day public comment period ends Sept. 15. Contentious topics at the panel's hearings could include the illegality of disclosing fracking chemicals, the current setback rules for gas wells -- 650 feet away from homes and wells, 200 feet from bodies of water -- and requirements to test water supplies between six months and a year after drilling begins.

Forced pooling for landowners who decline to sign leases, an issue so divisive that the state environment department now has its own study group after a separate MEC study group failed to reach agreement, is all but assured to come up.

"If you don't lease your land, then you're not going to be in the game, but when we're all finished and everyone's made money around you ... don't cry to us about the fact that you didn't get to make any money on these rocks," said Taylor, the state geologist who also sits on the MEC.

The next step for statewide shale gas rules will be a hearing at the Rules Review Commission, a once obscure state agency that McCrory's administration vested with new regulatory oversight powers, followed by a return to the Legislature.

North Carolina's fractious legislators, whose approval rating fell to 18 percent last month, may attempt to amend the MEC's rules before the start of a 60-day waiting period for official drilling permits. Still, given the recent removal of the required affirmative vote to frack that legislators agreed to in 2012, few on either side of the shale gas battle expect Raleigh to stand in the way.

Politicians and pundits will write the next chapter in the North Carolina fracking drama, perhaps long before its true shale gas reserves are definitively known. Drilling lobbyist Emanuel's vision of copious spinoff jobs from fracking at "steakhouses" and "shopping centers" already resonates with Ellmers, the Republican congresswoman who represents much of the state's shale gas zone in the U.S. House.

"You'll see such major economic growth that it really is hard to turn away from the possibility of being able to frack," Ellmers said in a recent interview.

Her long-shot Democratic challenger, "American Idol" runner-up Clay Aiken, is against fracking but has yet to turn the issue into a campaign-trail cudgel despite votes against the shale gas bill from 11 Republican state legislators.

The fracking law is more likely to haunt those state lawmakers in the near term as green groups continue their on-air assault on the credibility of promised profits from shale.

"They turned an issue with very limited economic benefit to North Carolinians into a hugely toxic political issue," NRDC's Yoon said of Republicans.

But the fracking saga could prove little more than a prelude to a fight over coastal drilling ahead of the possible McCrory-Cooper race in 2016. The Democratic governor of neighboring Virginia aligns with McCrory in support of offshore exploration, and the Interior Department soon plans to begin planning seismic tests for oil and gas in the Atlantic.

MEC Chairman Womack predicted: "We're going to find the richest hydrocarbon deposits" off the state's coast in the form of methane hydrates, ocean-bound natural gas deposits encased in ice.

Woodhouse, the conservative activist, also eyed a return of the offshore drilling provisions that Republicans married to fracking four years ago in their first failed attempt to start looking for shale gas.

"One of the larger points in all this," he said of the fracking debate, "is to develop an onshore energy industry that can develop into an offshore energy industry."

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