



## December 2018 News Letter

Hello from Arthur Stewart, Secretary

Here's the news...

### **# 1: Conventional Oil and Gas Act Falters at the 11<sup>th</sup> Hour**



The 2018 Legislative Session ended before the Pennsylvania Senate took a final vote on H.B. 2154, the Conventional Oil and Gas Act. Prospects looked good on the last day of the 2018 session, with the bill receiving passage by a comfortable margin in the Senate Appropriations Committee. After Appropriations the last stop for the bill was the Senate floor, for a vote by the entire Senate. A flurry of bills moved on that final day, and the Senate stayed in session until late in the evening. However, the session ended without the Conventional Oil and Gas Act being called for a vote, even though the bill enjoyed bipartisan support.

With the bill not passing in the 2018 session the process must start all over again. Representative Causer, a sponsor of the original bill, has circulated a sponsorship memo in the House of Representatives as the 2019-20 legislative session now begins. That circulation is a preliminary step to the actual filing of a bill.

It cannot be said enough times that PGCC is incredibly grateful to the men and women who gave the bill such an incredible ride. It took a great many intelligent voices within the oil and gas industry to communicate the need for conventional legislation. At the Crude Oil Development Advisory Council (CDAC) the DEP gave thoughtful commentary about how the bill should be written. A host of legislators spent time writing language, negotiating changes with interested parties, and meeting with industry members to learn about problems and needs. To list everyone who deserves credit is beyond our means; but to say thank you is well within our ability. THANK YOU!

We were told many times over the last year it was foolish to try to pass a new bill in less than a year. At the PGCC Board we disagree. The process brought us in contact with many folks who formerly knew nothing about the conventional oil and gas industry who now understand why we require our own legislative framework. That we didn't pass the act on the first try simply means that we built the foundation from which we launch our second attempt.

## **# 2: Educating College Students**

Many of today's college students hold the notion that hydrofracturing is evil and that our oil and gas fields are wastelands of industrial decadence. As the home of the world's oldest oil and gas fields, Pennsylvania is a marvelous classroom to learn the realities of energy harvest, and in November students from Grove City College attended a hydrofracture in the Allegheny National Forest.



**Jacoby Curtis of Curtis Well Service explains the function of a blender truck to G.C. students**

At the frac job the students inspected the environmental controls. It was a rainy day; nevertheless, just downhill from the frac site the water in the ditches was clear. The students were surprised at the amount of energy invested in the care for the environment.

The students then visited Cherry Run, just downhill from the frac job. There the students learned their visit was in the Allegheny National Forest where there are over 12,000 active oil and gas wells. Cherry Run is rated “High Quality” and students learned about studies by the ANF that rate the streams in the ANF as the highest water quality in the state.



**Grove City students in PGCC hard hats**

The students completed evaluations. Here’s a sampling of their comments:

“I enjoyed the trip, it was fascinating to be able to see the work put in to get the energy source we use. I also liked how open they are about the work they do, and how they also keep strong environmental standards to keep the area as clean as they can.”

“The ways that they preserve the environment during all the work that occurs on site were really cool.”

“We got to see a fragment of rock come out of the pipe and see oil oozing out of it. Overall, this trip was very insightful and an enjoyable experience.”

“I really enjoyed this trip. I learned that fracking is actually environmentally friendly and is a very high contributor to the world’s energy use. Unfortunately, there is not enough oil being gathered to replace the oil that we are using. Watching how the process worked and learning how each piece played a part was really interesting. I would definitely visit again.”

PGCC needs to continue the education process. If you are willing to host a visit, or if you have a connection with a college or university, contact a PGCC director so we can arrange more outdoor classroom experiences.

### **# 3: EPA Methane Rule**

In June 2016, during the waning days of President Obama's administration, the EPA published its new "Methane" rule. Under the new rule many of us received surveys that asked us to provide GPS locations for all our wells, along with a host of other information; the rule also requires methane collectors on storage tanks and the use of sophisticated leak detection technology.

The EPA under President Trump's administration rolled back the survey requirement, and in April 2017, the EPA temporarily postponed the implementation of the other rule requirements, including the methane collection systems. Now the EPA is planning to amend the rule to permanently roll back some of the requirements.

Unfortunately, the roll back does not go far enough, and even under the proposed changes, conventional wells would be subject to methane collection and leak detection requirements. Some of the inspection requirements would be reduced but the rule still fails to account for the fact that low pressure/low volume stripper wells are not major contributors of methane and that stripper well economics do not allow for multi-thousand dollar collection and monitoring systems.

In December PGCC submitted substantial comments to the EPA with the request that the rule be modified to exempt stripper wells altogether. Here is an excerpt from the conclusion to PGCC's comments:

PGCC maintains that in the context of any sensible cost benefit analysis, the only logical outcome is to exempt Low Production wells (15 BOE daily average production per year) from the Rule. On the cost side of the analysis, the impact of the Rule upon the conventional (low production) industry will be devastating. New wells are already uneconomic as evidenced by the 98% decline in new conventional wells. The additional costs imposed by the Rule will render existing wells uneconomic, adding to Pennsylvania's already significant abandoned well problem. The rendering of uneconomic wells will also exacerbate the job loss that has already attended the collapse of new conventional well drilling.

The devastating impact of this rule, were it to go into effect, cannot be overstated. Thus, in December PGCC also worked with Congressman GT Thompson to introduce legislation which would exempt stripper wells from the rule. Congressman Thompson joined with PGCC in sending comments to the EPA and the Congressman is now working to advance his legislation.

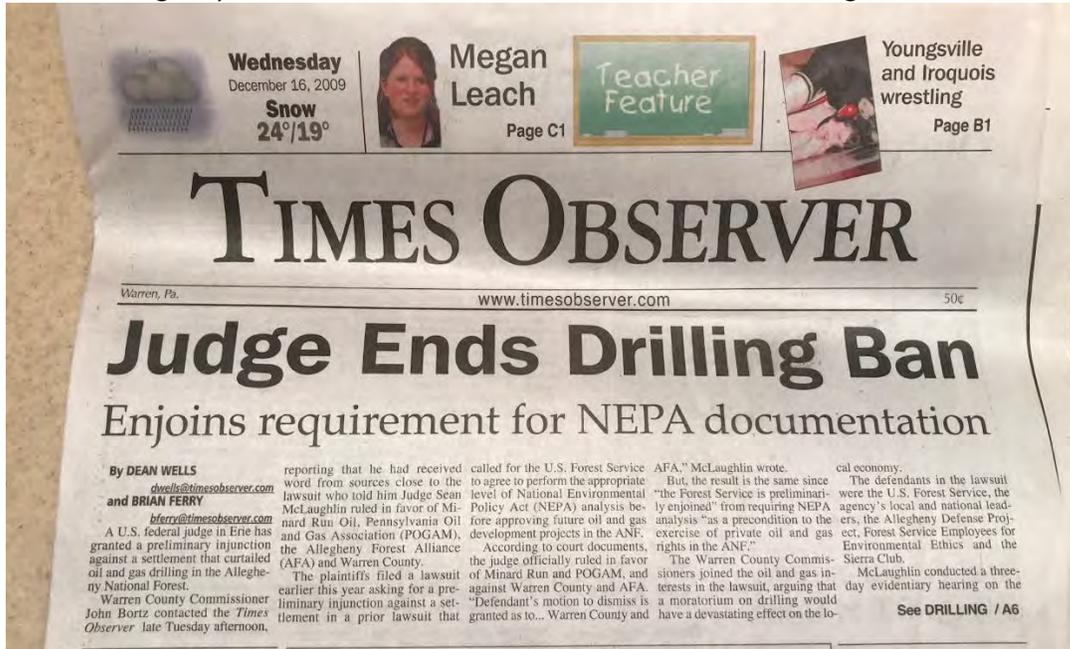
### **# 4: Property Rights Seminar**

If you want to learn more about your property rights as an oil and gas owner, set aside **February 13, 2019, at 6:30 PM**, for a PGCC seminar at the Days Inn (former Holiday Inn) in Warren. PGCC has invited legal experts Matt Wolford and Craig Mayer to talk about those rights. PGCC put together a manual that answers hard questions:

- what are your rights when the surface owner disagrees with your development plans?**
- what notice do you have to provide to the surface owner?**
- who has to remove the timber?**

- can I use the surface owner's roads? Can the surface owner use my roads?
- who can use the stone?
- and more...

It was ten years ago that answers to these questions were headline news as the oil and gas industry fought off the Allegheny National Forest's moratorium on all new well drilling.



**On December 15, 2009 Judge McLaughlin confirmed the oil and gas owners' property rights**

On February 13<sup>th</sup> you'll hear from the folks who were at the center of the fight to preserve our rights. The manual will become your bible for how to handle surface owner questions. Cost is free for PGCC members; registration for non-PGCC members is \$50. Registration is at the door.

## **# 5: Water Disposal Options**

No magic bullet will solve the production water problem. Among the various treatment and disposal options there is a mix of bad and good news. Centralized waste treatment facilities (which receive over 1/2 of PA's produced water) have suffered from an ever-tightening noose of restrictions. Warren's plant is closed, and many others are on reduced quotas. Fluid Recovery Service (FRS) in Franklin was closed several months ago and re-opened recently, but at only a small percentage of its former capacity.

Public Sewage Treatment Plants (POTW's) take about 25% of PA's produced water, but they face the risk of shutdown by the EPA in August 2019. PGCC filed a lawsuit to pushback the EPA rule and the outcome of that lawsuit remains to be seen.

Two small flow treatment plants have opened in Titusville and Bradford. They make clever use of small tanks and "technology in a trailer" to occupy a small footprint that can be located virtually anywhere. However, these plants discharge their finished product through POTW's...so if the EPA POTW rule goes

into effect in August 2019, these small plants will be out of business.

Moreover, any plant that discharges its final product is subject to the risk that, in the future, the chlorides (salt) will have to be removed from the discharged water. For decades the chlorides have been diluted in the discharge. Chloride removal is technically feasible, but it adds several dollars per barrel to the treatment cost—money which the industry is obviously unable to afford.

The underground injection facility in Bear Lake is suffering technical problems.

The Crude oil Development Advisory Council (CDAC) is addressing the spreading of brine on roads for dust suppression and de-icing. In cooperation with Penn State, CDAC is locating funding to study the characteristics of produced water from different geographical areas and formations. Untreated brine has been spread on dirt roads for decades and to date, no scientific evidence has been found that the soils around those roads contain harmful levels of radium or other elements contained in produced water. Further study is intended to answer that question definitively and also address whether radium and other elements can be removed from produced water inexpensively, thereby opening the path to the use of produced water as a product, rather than a waste.

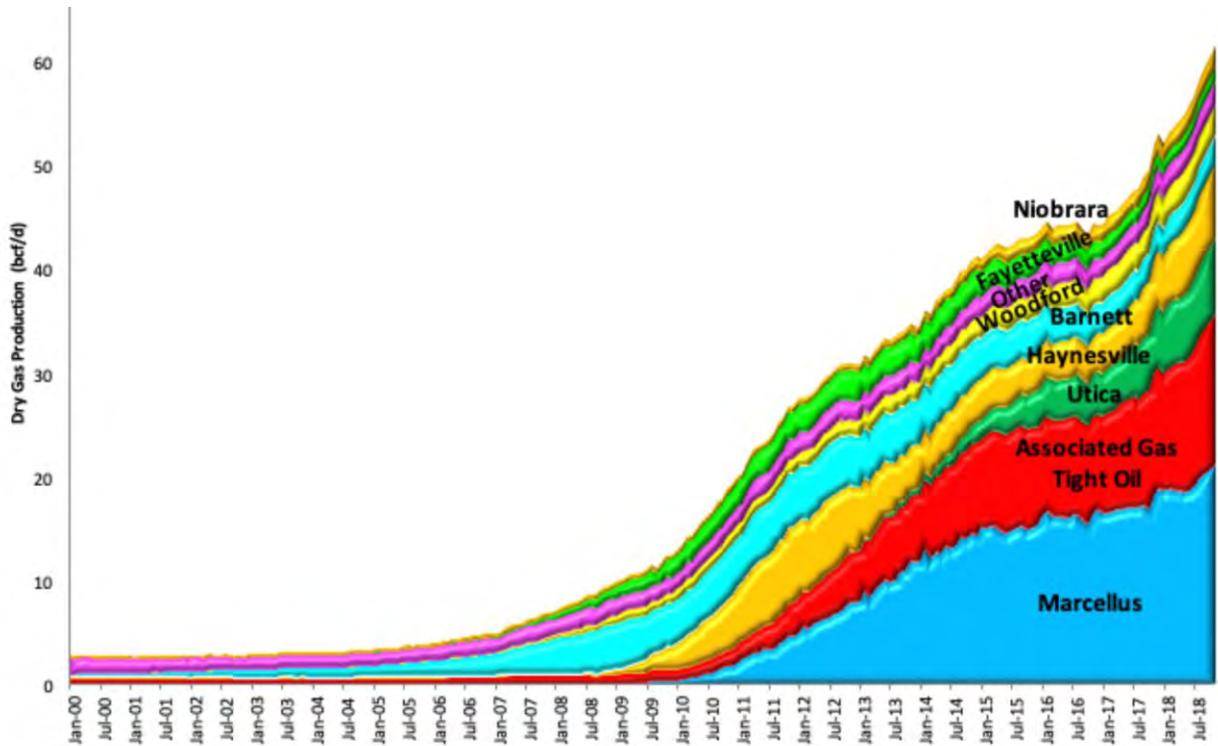


**Unpaved roads are the largest source of particulate air pollution in the United States**

### **# 6: Commodity Prices Wreak Industry Havoc:**

A glut of shale gas continues to depress natural gas prices. Shale gas now accounts for a stunning 70% of United States natural gas production, up from zero less than fifteen years ago. Virtually no conventional gas wells have been drilled in Pennsylvania for several years, and none are planned.

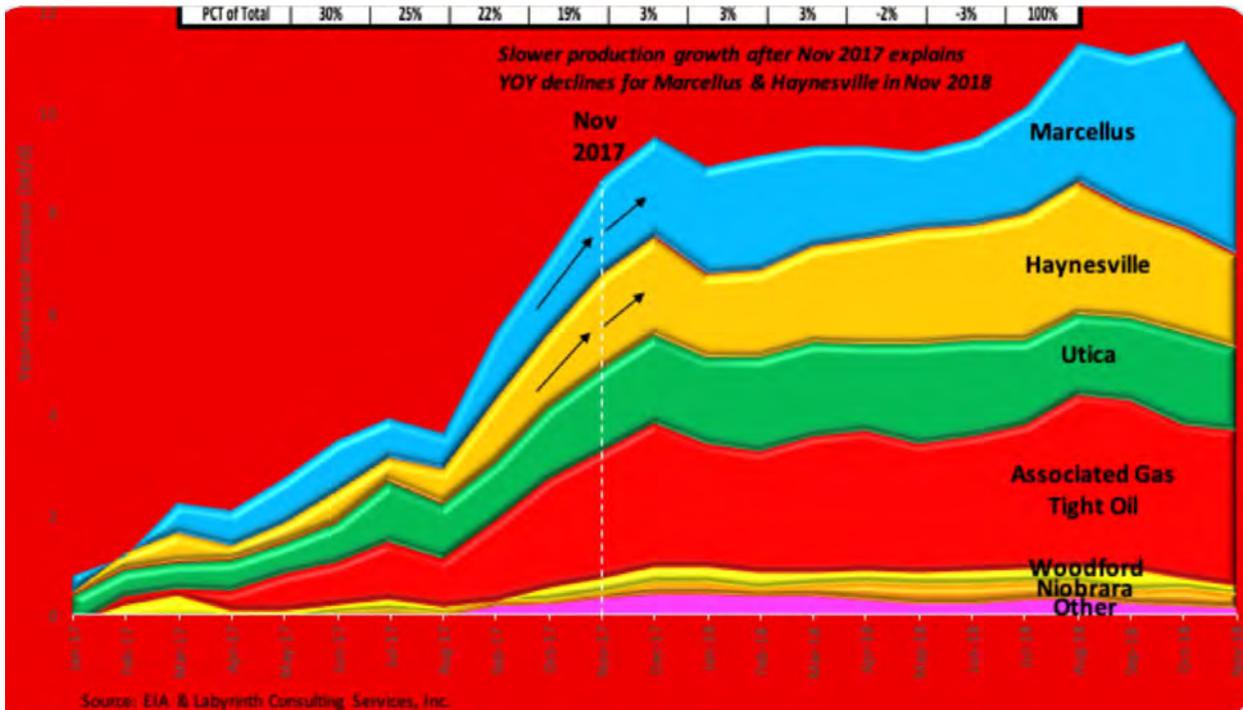
In the unconventional shale gas industry, the Marcellus dominates all other plays.



Source: EIA & Labyrinth Consulting Services, Inc.

**The Marcellus remains the beast of the east.**

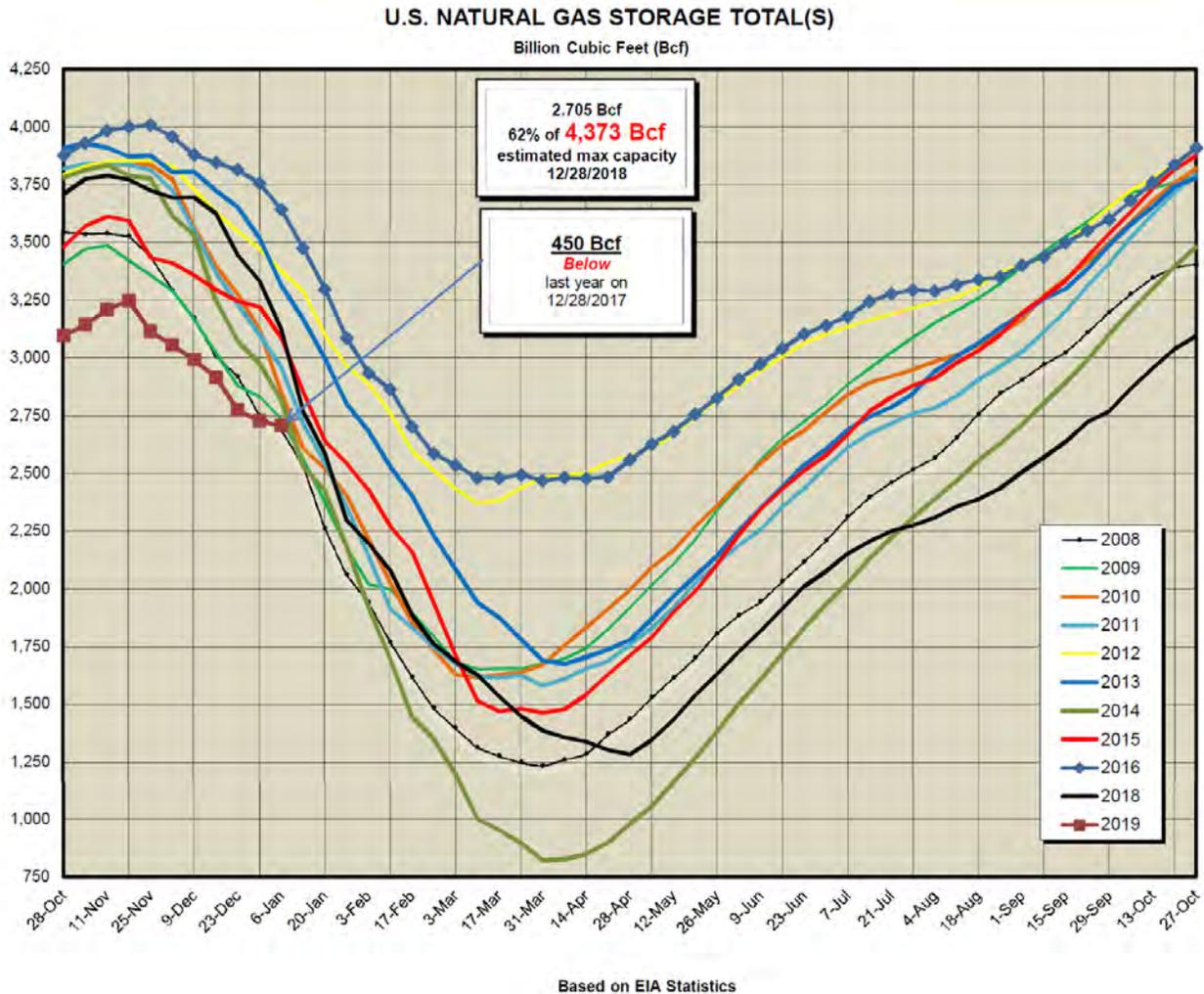
However, it comes as some surprise that the fastest growing gas source is the associated gas produced with shale oil.



Source: EIA & Labyrinth Consulting Services, Inc.

**The rate of growth of gas associated with tight oil exceeds even the rate of growth in the Marcellus**

The landscapes of Texas, Pennsylvania, West Virginia and other state remain dotted with drilled but uncompleted wells (DUCS), and those DUCS portend the continuing rise of US natural gas production. The long term outlook for natural gas pricing remains poor with storage levels beginning to climb as against the five year average:

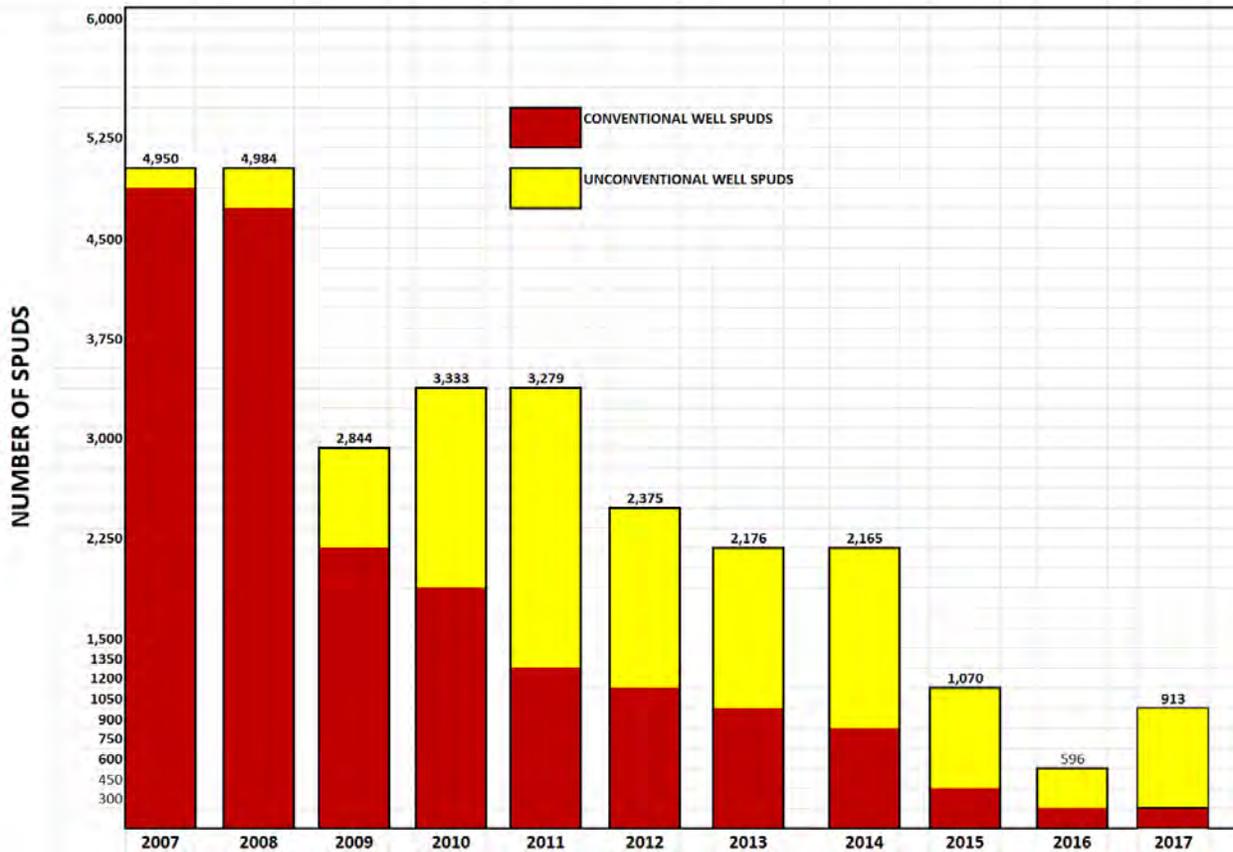


The rapid growth of gas associated with tight oil plays helps explain the recent collapse of oil prices. US oil production now exceeds 11.5 million barrels per day, with unconventional tight oil making up nearly 75% of that flow.

US unconventional shale oil production has grown an astonishing 1.5 million barrels per day in little over a year, leading oil prices to collapse from +\$70 two months ago to less than \$45. Many now see the run up to \$70 oil as an over-reaction to sanctions on Iranian oil production.

What can be said with certainty is that conventional oil and gas in Pennsylvania cannot thrive, or even survive, at current oil and gas prices. In the last ten years new conventional well spuds in Pennsylvania have dropped by over 95%.

**PA DEP YEARLY OIL AND GAS WELL SPUD DATA (CONVENTIONAL & UNCONVENTIONAL)**



**New conventional well spuds in Pennsylvania have been on the steep decline since 2008**

New conventional gas wells remained AWOL in 2018, but +\$70 oil brought optimism to conventional oil drillers, with over 200 new well permits being issued in 2018. However, anecdotal information from suppliers and service companies suggests the November collapse in oil prices has destroyed that optimism and that, where it was not too late, producers shelved plans to spud permitted wells.

CDAC is gathering a more detailed picture of the fallout, and the CDAC Economic Committee is preparing a report on impacts to industry for the January 24, 2019 CDAC meeting. The Committee invites anecdotal information about how commodity prices are affecting your businesses, from your drilling plans, to layoffs, sale of assets and the like. If you have information you would be willing to share, contact either of the committee co-chairs, Joe Thompson at [joethompson10@verizon.net](mailto:joethompson10@verizon.net) or John Phillips at [jphillips@oilregion.org](mailto:jphillips@oilregion.org).

**Your PGCC Board of Directors:**

David Clark, Pres. <a href="mailto:davidclark6@verizon.net">davidclark6@verizon.net</a>	Chris Cochran <a href="mailto:czlholdings@westpa.net">czlholdings@westpa.net</a>
Bruce Grindle, VP <a href="mailto:abgrindle@aol.com">abgrindle@aol.com</a>	Ted Howard <a href="mailto:howard005@gmail.com">howard005@gmail.com</a>
Arthur Stewart, Sec. <a href="mailto:camelot1@atlanticbb.net">camelot1@atlanticbb.net</a>	Cathy Kirsch <a href="mailto:cakogm@aol.com">cakogm@aol.com</a>
Wally Phillips, treas. <a href="mailto:wally.phillips@dorsoenergy.com">wally.phillips@dorsoenergy.com</a>	Doug Jones <a href="mailto:dj@catalystenergyinc.com">dj@catalystenergyinc.com</a>
	Glenn Baldensberger <a href="mailto:glennbaldy@verizon.net">glennbaldy@verizon.net</a>

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**KEYSTONE**

**Bradford, PA - Wireline Services  
Openhole, Casedhole, Casing Inspection,  
Plug & Abandonment**

Office - 814-362-0230  
Dick Carpenter - 304-575-8989  
Marty Comini - 412-260-9040

**Jean M. Mosites**  
Attorney at Law  
[jmosites@babstcalland.com](mailto:jmosites@babstcalland.com)



**Babst Calland**  
Attorneys at Law

Two Gateway Center  
Pittsburgh, PA 15222  
**Direct** 412.394.6468  
**Main** 412.394.5400  
**Fax** 412.586.1051  
[www.babstcalland.com](http://www.babstcalland.com)

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**Matt J. Bernini**  
*Account Executive*

Laurel Place, 922 Philadelphia Street  
Indiana, PA 15701-3940

Desk: 724.463.5921  
Cell: 724.599.5498,  
Fax: 724.349.6616  
[mbernini@reschini.com](mailto:mbernini@reschini.com)

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**Dan Palmer**  
**Crude Relationship Manager PA / NY**  
**814-368-1263**  
**dpalmer@amref.com**



**ROBERT S. TAYLOR, ESQ.**  
CHAIRMAN AND CEO

THE CAMERON COMPANIES, LLC  
PO Box 220  
SOLEBURY, PA 18963

PHONE: 215-489-5300  
FAX: 215-489-5301  
CELL: 215-801-2295  
EMAIL: RST@CAMERON-COMPANIES.COM