

Utica shale boom talk not as loud

The warm-up is almost over in Ohio's Utica shale country. Now, it is time to see whether the flurry of activity, the billions of dollars of investment, and the hyperbole about its potential will produce substantial results. Oil and gas now are being pulled from the layer of rock known as the Utica, located as deep as 9,200 feet under the eastern and central parts of the state. Figures released recently show that energy companies nearly doubled their production in the Utica last year. Based on those results, industry experts now have a better sense of what the Utica is and what it isn't. Here is what we know:

- While the Utica is beneath eastern and central parts of the state, its sweet spot is a much smaller area that includes Carroll, Harrison, Columbiana and Noble counties in eastern Ohio, not far from the Ohio River.
- Despite early hopes that the Utica would be rich with oil, its most abundant resources are natural gas and natural-gas liquids. Much of the oil is locked away in areas that are difficult to access with current technology.
- Central Ohio is unlikely to see an oil and gas boom. Devon Energy is already giving up on the Utica and is selling its assets there.

Nobody contributed to the high expectations as much as Chesapeake Energy and its now-former CEO, Aubrey McClendon. Two years ago, he told an Ohio audience that shale energy would be the biggest thing in the state "since maybe the plow" and estimated \$500 billion in income. His company remains the largest leaseholder and producer in the state, but his successors and other energy executives have toned down the talk. "Early on, there was this hype that [the Utica] was going to be the next east Texas or Saudi Arabia," said Randy Albert, chief operating officer of gas operations for Consol Energy of Pennsylvania, which is drilling in eight Ohio counties. "It's not going to be that." He sees the Utica as having a strong core of resources in just a few counties, with declining levels to the east and west. Much of the early excitement was tied to hopes that the Utica was rich in oil, which is more valuable than natural gas. What companies have found, though, is that much of the oil is hard to get to. "I think everybody continues to believe that the Utica contains prospective amounts of crude oil, but there are technological issues and challenges that need to be addressed," said Tom Stewart, executive vice president of the Ohio Oil and Gas Association. "That's a function of technology, and somebody will figure it out." Energy companies produced 635,896 barrels of oil and 12.8 billion cubic feet of gas last year in the Utica, according to the Ohio Department of Natural Resources. In releasing the figures last month, officials spoke about the "staggering amounts" of energy and issued forecasts showing production would grow by more than 10 times by 2015. This optimism is in contrast to the grumbling of analysts, some of whom are beginning to see the Utica as a disappointment. "There has been a lot of smart money that lost a lot of money in this space," said Mark Hanson, an energy analyst with Morningstar in Chicago, noting that several regions outside Ohio also failed to live up to their promise. That said, development of the Utica is in its early stages. "People are still trying to figure out where the sweet spots are, where you can get the highest returns with oil content," he said. He points to one well in eastern Ohio's Harrison County, operated by Gulfport Energy, as the rare example of substantial oil content. The well, called

“Boy Scout 1H,” produced 37,235 barrels of oil and 122 million cubic feet of gas in 32 days. But it is just one out of the 87 wells included in the recent state report. For some perspective, look at Eagle Ford in Texas, a shale formation that gushes with oil. In 2010, when there was drilling on 72 leases, Eagle Ford produced more than 5.5 million barrels of oil (Texas doesn’t list the number of wells per lease). Last year, Eagle Ford had drilling on more than 1,200 leases and more than 135 million barrels of oil, according to the Railroad Commission of Texas, which compiles oil and gas figures. Based on the few numbers available for the Utica, analysts feel comfortable saying it is no Eagle Ford. State officials say that the Utica numbers would have been much higher in 2012 if not for a lack of infrastructure to process and transport the resources. Indeed, companies have announced more than \$5 billion in spending on pipelines and processing. The officials also note the continuing pace of drilling permits, with more than one in four of the state’s 660 permits issued so far in 2013. But there is no refuting that some companies are heading for the exits. Devon Energy, one of the largest producers in the country, is the most notable example. A spokesman confirmed that Devon is still planning to sell its assets in Ohio. Devon drilled five wells and got no natural gas from any of the wells and only a small amount of oil from one. Devon’s results are bad news for anyone hoping to sell mineral rights in central Ohio. The company drilled in an area closer to Columbus than anyone else.

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Kasich revising Ohio drilling-tax plan

Gov. John Kasich is trying to line up support in Ohio’s drilling heartland for his proposed oil-and-gas tax increase by offering to send a quarter of the proceeds back to Appalachia. The emerging proposal is likely to surface as part of compromise talks on the \$61.7 billion, two-year state budget that cleared the Ohio Senate in a 23-10 party line vote Thursday. Both GOP-led legislative chambers have thus far rejected the drilling tax increase, but they supported significantly different tax packages that will need to be reconciled. The Republican governor initially proposed raising severance taxes on Ohio’s burgeoning shale drilling industry to 4 percent and directing proceeds toward a statewide income-tax cut. Tax-averse lawmakers, energy companies and economically challenged eastern Ohio counties balked, forcing the administration to regroup. State Rep. Ross McGregor, a Springfield Republican, said he supported the original proposal and wants to see whatever changes are necessary to move the drilling tax forward. He likened sending money to affected Appalachian areas to earmarking the bulk of Turnpike bond proceeds to northern Ohio, where the roadway is located. “I’m sympathetic with colleagues whose districts are the most impacted [by drilling],” McGregor said. “Certainly, these areas of the state have had a real draught in economic development, not just over the past couple of years but for decades. I also see taxes from this resource as a benefit to the whole state.” The new plan would raise the severance tax rate to 4.5 percent and send 25 percent of the revenues to 33 Appalachian counties, through their development agencies. The remaining 75 percent would still go to statewide income-tax reductions. That could mean more than \$370 million for the region and \$1.1 billion in tax cuts over five years. Kasich spokesman Rob Nichols said that through discussions on the tax, the administration has determined that offering a portion of proceeds to the region where drilling is booming is “the right thing to do.” “All of Ohio stands to benefit enormously from the shale boom, especially eastern Ohio,” he said. “As the boom continues to grow it’s only right that eastern Ohio communities have the resources they need to both address

new demands and also make sure these new opportunities produce significant, sustainable benefits for local families.” The industry remains strenuously opposed to Kasich’s tax swap plan, Tom Stewart of the Ohio Oil and Gas Association said. “It’s like taking a 100-dollar bill from eastern Ohio landowners, then ripping off a quarter of that bill and giving it back to them,” he said. “What do you do with that?” Stewart said the industry has supported a doubling of the severance tax in 2010 and is not averse to taxation “for good public policy reasons.” “It’s not an issue of whether we like supporting it or not,” he said. “In this case, we see the severance tax being used to support a political purpose to achieve a political goal that does not support public safety and trust in the gas regulatory program.” That political purpose is lowering Ohio’s state income tax, a campaign promise of Kasich’s in 2010. Columbus Chamber of Commerce lobbyist Michael Hartley said reducing the income tax would help the entire state’s economy. “Our No. 1 priority for state stuff is lowering the state income tax. That helps our members,” he said. But having more of that money returned to eastern Ohio communities is essential, said Tracy Drake, chief executive officer of the Columbiana County Port Authority. “The area has seen monies for other initiatives, like casinos and Turnpikes, go to local areas,” he said. “So if there is to be a tax on this industry here, obviously we would think it would be appropriate for some of that tax to stay local, because it’s impacting the area and, historically, eastern Ohio has been under-recognized for economic development by the rest of the state.” Stewart said Kasich’s plan still unfairly taxes a single industry for the benefit of other areas of the state. “That’s a question that needs to be asked of Ohio landowners in eastern Ohio, who have been waiting decades for this,” he said. “What’s that person in Cincinnati getting out of this? They’re getting \$4 natural gas (per 1,000 cubic feet) when it should be priced at \$16, they’re getting 38,000 jobs so far.”

Associated Press. 6/7/13

New school funding formula advances with Senate passage of budget

The Senate on Thursday voted to establish a new school funding formula that entails a total of \$13.65 billion to schools over the next two fiscal years. The latest proposal to create an adequate and equitable formula saw several iterations as it moved through the budget ([HB 59](#)) process and likely isn’t finished changing. Conference committee discussions could drive additional dollars into the system. Senate [President Keith Faber](#) nevertheless told reporters after the vote that he doesn’t anticipate spending a lot of time in conference committee discussing K-12 education spending. “I would imagine that is pretty much where we’re going to find a great deal of agreement with our House colleagues,” he said. The formula is part of the \$61.7 billion spending plan for fiscal years 2014-2015 passed by the Senate 23-10. Starting as [Gov. John Kasich](#) Achievement Everywhere formula at \$6.2 billion and \$6.4 billion for fiscal years 2014 and 2015, the calculations for state support to districts were derived after roughly a year and half of work by the administration to craft a new system. When revealed last January, the governor anticipated widespread support from local schools because none would see reductions over their fiscal year 2013 state aid levels. But when the administration described as “unsustainable” the “guarantee funds” used to hold harmless about 400 districts, schools expressed concern that their revenue would drop off considerably if the guarantee funds were eliminated in future years. And once district spreadsheets were released, the formula appeared to drive more dollars to wealthy districts and flat fund poor ones. The administration defended the outcome of their calculations

by saying wealthy suburban districts have seen considerable growth in recent years and have not seen the change in state aid to support it. Meanwhile urban schools have seen declining enrollment and rural districts have seen growing property values. The governor's plan also capped the increases district could see at 25% in each year. When House began hearings on the budget, one of the biggest concerns with the formula expressed by witnesses was the per-pupil base amount used in the formula. Although the administration had said it did not attempt to identify what dollar amount would equate to an adequate education, stakeholders boiled it down to \$5,000 per pupil, lower than the most recent number used. Through its substitute bill, the House overhauled the formula to something that one lawmaker said looked more like the former Building Blocks model than the Achievement Everywhere proposal. Its per-pupil amount was raised to \$5,732, the most recent figure used. Although the House's formula proposed \$6.6 billion and \$6.9 billion in each fiscal year, the lower chamber added transportation and career-tech line items into the foundation formula instead of keeping them separate as Gov. Kasich had. By deducting those items from the formula, the House actually provided less overall to schools for other formula elements compared the governor. What the House did do, however, was reduce the cap to 6% each year, providing more money to spread among districts and cutting the number of district on the guarantee in half. Upon the budget's arrival in the Senate, advocates again pushed for an increase in the per-pupil figure, saying \$5,732 would fund schools at 2009 levels. The upper chamber seemed to heed that advice and increased via the substitute bill its formula base to \$5,745 in FY 2014 and \$5,800 in FY 2015. It also raised the gain cap to 6.25% in year one and 10.5% in year two. The result was a formula totaling \$6.609 billion in FY 2014 and \$7.043 billion in FY 2015. [Sen. Scott Oelslager](#) (R-Canton) said during the floor debate that between the House and Senate's additions to the foundation line item, the state would provide nearly three-quarters of a million dollars more to schools over the biennium compared to the current fiscal year, an 11% increase. "I'm sure there will be some who aren't happy with the plan and say their district isn't getting what they need," he said. "Some may suggest that education isn't a priority for the Ohio Senate.... Of the \$176 million total in General Revenue Funds added by Senate in this budget, we spend \$173 million on education." [Sen. Randy Gardner](#) (R-Bowling Green), who chaired the Education Finance Subcommittee, said not only does the formula reduce the number of schools on the guarantee to 176 districts, but it recognizes the value of disadvantaged pupil aid and reading support funds. "This budget makes education, this budget makes learning opportunities and supporting children a priority again in Ohio," he said. [Sen. Tom Sawyer](#) (D-Akron) said the funding formula represented a "great leap" forward in supporting schools but is not enough to make up the ground lost in recent years because of reductions at the state level. It also fails to identify what makes up an adequate education and what that costs. He said the transportation line item should be held outside the formula so that it is not subject to the gain cap, which holds down state dollars for districts' aging bus fleets and growing fuel costs. [Sen. Nina Turner](#) (D-Cleveland) gave the legislature a "good job" for increasing school funding more than \$700 million over FY 2013. "But P.S., this still does not make up of the \$1.8 billion in revenue students and their schools lost two years ago due to the loss of stimulus funds and tax reimbursements." She saw tabled an amendment that would have created a Targeted Investment Fund for education by reducing the proposed small business tax cut from 50% to 32%. The \$480 million that would free up would have been used to drive dollars to districts based on the percent of economically disadvantaged students, their OGT success rate and their kindergarten readiness scores for incoming children. [Sen. Chris Widener](#) (R-Springfield) defended the bill's formula, saying it does contain dollars for students in low-

wealth districts that "need some extra help." "Not every one of our districts across the state is the same," he said. "But the (formula) that's contained in this bill is constitutional, is fair, is equitable and does produce what you all will be proud of when you go back and talk to your school districts." The amendment was tabled on party lines. Also tabled on the same margins were:

- Sen. Turner's amendment to direct \$26 million per fiscal year to the Cleveland Municipal School District to support elements of the Cleveland Plan.
- [Sen. Joe Schiavoni](#)'s (D-Boardman) amendment to direct \$68 million over the biennium for school safety upgrades. The budget contains \$12 million for specific upgrades.
- Sen. Sawyer's amendment to require a study by the Department of Education of the state's open enrollment long-term pilot project.

Gov. Kasich proposed in his budget a new grant fund that would provide dollars to districts that propose innovative ways to reduce costs or improve academics. Although he proposed it be funded at \$300 million in lottery profit dollars over the biennium, the House reduced it to \$150 million, but the Senate increased the allocation to \$250 million. Sen. Gardner said the fund was one of 11 issues on which Republicans and Democrats on the Education Finance Subcommittee agreed. "That's at least a hundred million dollars of bipartisan agreement," he said about Sen. Turner's suggestion to increase the fund. Sen. Sawyer said he appreciates the governor's mission for creativity, but the governing board that would be created to assess grant applications "does not have representation from people who deliver most directly on innovation-teachers." The Senate also created a voucher program that would contribute \$30 million toward putting low-income children in preschool programs. The approach would allow students to use the voucher to pay for private preschool when the free, public option is full. [Sen. Peggy Lehner](#) (R-Kettering) said investment in early childhood supports the reading guarantee by ensuring children start kindergarten ready to learn. Although she had hoped \$100 million could be put toward the program, she said she's "very proud and very appreciative" of the funding level. The lawmaker said she would push for greater funding during conference committee debate. "This is something I think we can all agree on," she said. "Regardless of what your philosophical approach is to the economy, you cannot deny this is one area that for every dollar we spend we get \$10 back, and that's a low estimate." The upper chamber established funding for K-3 literacy at \$207 million, funding meant to support the third-grade reading guarantee. Sen. Sawyer said he is glad for the funding; "however, it's just not enough if we're serious about improving K-3 literacy statewide." Moving relatively untouched through the process is the governor's expansion of EdChoice vouchers. The proposal would allow kindergarteners and first graders whose families are below 200% of the federal poverty level to receive a scholarship to a private school. The Senate added language to allow a reduced-value scholarship for children up to 400% FPL. The money for the program would come directly from the state rather than be deducted from the home districts, as the existing EdChoice program is. Sen. Sawyer offered an amendment to remove the expansion, which received a considerable amount of opposition testimony. He said the proposal is beyond what the market demands in terms of students who wish to attend private schools. Additionally, the cost has the potential to grow exponentially as time goes on. The state share of instruction funding for colleges and universities received little discussion during budget hearings because presidents of the institutions worked together to craft the proposed formula. It would increase the

portion of schools' state funding based on degree completion and place a 2% cap on tuition increases. Although Gov. Kasich had proposed a College Credit Plus program to streamline dual enrollment and post-secondary enrollment option systems, the House removed it. Sen. Gardner noted the Senate reinstated a different version that would start in the 2015-16 school year and help high school students attain credit for college in a "bolder way." Sen. Sawyer said the higher education funding formula is a "virtuous change" but said the state's need-based aid, the Ohio College Opportunity Grant, should get more funding.

Gongwer News Service. 6/6/13

Conflict re-ignites over controversial pipeline

House Speaker John Boehner Thursday assailed President Barack Obama for not approving the Keystone XL oil sands pipeline, saying that the White House needs to pursue an "all of the above" energy strategy to spark "robust and sustained growth" in the nation's economy. Boehner's speech was a sign that conflict has re-ignited over the controversial pipeline stretching from Canada through the United States. On the same day the West Chester Twp. Republican spoke, 145 former Obama campaign workers – including 17 from Ohio – urged the president in a letter to reject the project. Obama is expected to decide this year on whether to approve the crude oil pipeline that could eventually carry 830,000 barrels of oil a day to Gulf Coast refiners. "We have an administration that won't even let the Keystone XL pipeline be built – that instead employs an endless chain of reviews and excuses," Boehner said in a speech before the National Association of Manufacturers, an organization devoted to representing the industrial sector. By contrast, the 145 former Obama campaigners, along with other Keystone XL protesters, see the pipeline as an environmental disaster. In their letter to Obama, the former campaign workers charged that the pipeline "will lock in" massive amounts "of carbon pollution over the next four decades and that it could spill into our nation's most valuable water sources." The letter was released just days after 22 former Obama campaigners were arrested in Chicago for protesting the pipeline. The protesters see a rejection of the pipeline as an opportunity for Obama to, as the letter said, "be on the right side of history" and to cement his "legacy as a climate champion." The pipeline project has been hotly debated since its introduction in May 2012, with protests peaking Feb. 17 of this year when approximately 40,000 people marched in a rally in Washington calling on Obama to reject the pipeline and make a step toward climate change.

Dayton Daily News. 6/21/13

Supreme Court accepts lawsuit challenging State's monopoly on oil, gas drilling oversight

The Ohio Supreme Court has agreed to review a lawsuit questioning whether local municipalities can regulate oil and gas drilling within their borders. By accepting the case, the justices could pass judgment on state statute that gives the Department of Natural Resources' oil and gas division sole authority to oversee energy drilling. Ravenna-based Beck Energy Corp. filed the suit against the city of Munroe Falls after city officials issued a stop-work order on a well because the company lacked local permits for drilling, zoning, and rights-of-way construction. A

trial court ruled in favor of the city, but the Ninth District Court of Appeals overturned that decision in February. The appeals court decision said the case appears to be an issue of first impression, meaning it's a question of law with no controlling precedent. The Supreme Court voted 6-1 to accept the case, according to a court [announcement](#). Justice Terrence O'Donnell was the lone "no" vote. Jack Shaner of the Ohio Environmental Council said his organization was "thrilled that a local government has challenged the status quo." Mr. Shaner said the Supreme Court could rule a couple different ways on the case. One possibility - favored by Mr. Shaner - is that the justices could say the General Assembly exceeded its authority by overriding local governments' home-rule powers. Another potential avenue the court could go, he said, is to rule that local jurisdictions are allowed to control ancillary factors related to drilling, such as lights, noise, site access or hours of operation. An ODNR spokesman declined to comment on the lawsuit, but in an [amicus brief](#) previously filed in the case, the department said it is "imperative" that the state alone should have permitting and regulatory authority over oil and gas activity. "If all municipalities enacted their own regulatory provisions, the result would be inconsistent and unpredictable regulation across the state," the brief stated.

Gongwer News Service. 6/20/13

EPA study on fracking threat to water will take years

The U.S. Environmental Protection Agency is analyzing the threat that hydraulic fracturing, or fracking, poses to drinking water, but that study won't be completed until 2016. That assessment came Tuesday from Jeanne Briskin, coordinator of hydraulic fracturing research at the EPA's Office of Research and Development. She was among the speakers at "Shale Gas: Promises and Challenges," a two-day conference staged by the National Academy of Engineering, held in Severance Hall, the home of the Cleveland Orchestra. Case Western Reserve, Cleveland State and Kent State universities sponsored the conference, which attracted 850 people Tuesday. Briskin said the EPA probably would complete and release a preliminary report in late 2014. It is "complex research," she said. In 2010, Congress directed the agency to investigate the threat to groundwater and air from hydraulic fracturing in Ohio and other states. Briskin outlined what her agency has done so far and the work that still must be completed. It is sampling water in two drilling counties in Pennsylvania plus in Colorado, North Dakota and Texas. Nine energy companies and nine drilling-supply companies have cooperated with the EPA research, and 1,000 chemicals have been identified as being used in the fracking process, Briskin said. Stanford University professor Mark Zoback expressed concern over injection wells that are used in Ohio and other states for disposal of liquid drilling wastes. He said drillers are injecting "too much water too fast," and that's increasing underground pressure that can, in some cases, trigger small earthquakes, like those that hit Youngstown in late 2011. It is probable that problem injection wells increasingly will be shut down to avoid future earthquake problems, he said. Drillers will have to avoid injecting near faults, limit injection rates or limit pressures to minimize problems. He said the fracking process is little understood, calling it "a very complex phenomena." Zoback said the use of water, sand and toxic chemicals might cause "micro-mini earthquakes" that free up the natural gas thousands of feet below ground. He predicted that drillers will be able to extract twice the gas they're getting now while using half as much water in the fracking as drilling technologies improve. The biggest problem that energy companies face: "It's well construction, well construction, well construction. Do it properly," Zoback said.

Drilling is a process that absolutely can be done safely, but it is not always done that way, he said. Utilities like Akron's FirstEnergy Corp. are very interested in shale gas as a fuel, but price volatility is a concern, said Gary R. Leidich, a retired president of FirstEnergy Generation Corp. The conference was organized in part because of Ohio's role in the Utica shale boom, said Hunter Peckham, conference chair from Case Western Reserve. The program was designed to address what he called the "legitimate concerns" surrounding shale gas drilling, he said. The conference continues today.

Akron Beacon-Journal. 6/18/13