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Shale Gas Well Blowout Raises Specter of New BP: Energy Markets
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By David Wethe and Asjylyn Loder

June 7 (Bloomberg) -- A Pennsylvania natural gas well “blowout” last week helped drive prices to a 14-week high on concern that tighter restrictions on offshore drilling following BP Plc’s Gulf of Mexico spill will spread onshore.

The incident on June 3 at the project operated by EOG Resources Inc. shot flames and drilling fluids 75 feet (23 meters) into the air, the state Department of Environmental Protection said in a statement on June 5. The well is in the Marcellus Shale gas find in Clearfield County, about 122 miles northeast of Pittsburgh.

With offshore exploration curtailed, dependence on shale gas may grow, amplifying the impact of any disruptions. A “blowout” is the industry’s term for a surge of pressurized oil or gas that causes an eruption and is what caused the explosion and fire at BP’s Macondo well in the Gulf April 20, resulting in the biggest oil spill in U.S. history.

“The shale problem is a bullish factor in the market,” said Carl Larry, president of Oil Outlooks & Opinions LLC in Houston. “A lot of people are starting to worry about the Gulf production of gas. The more we cut back on Gulf production, the more we rely on shale production.”

Natural gas for July delivery climbed 10.7 cents on June 4, or 2.3 percent, to settle at $4.797 per million British thermal units on the New York Mercantile Exchange. Natural gas rose 11 percent week last week, the biggest gain since the week ended Dec. 18. EOG shares sank 6.1 percent to $102.99 in New York trading following the incident.

Shale Output

Shale gas production in the U.S. rose 71 percent in 2008 from 2007 to 2.02 trillion cubic feet, or about 10 percent of total U.S. output, according to the most recent Energy Department data.

EOG said in a statement that the Pennsylvania gas well experienced a “control issue” at about 8 p.m. New York time on June 3 and was secured by 12:15 p.m. the next day. No injuries were reported, the company said. The Pennsylvania Department of Environmental Protection termed the incident a “blowout.”

“The event at the well site could have been a catastrophic incident that endangered life and property,” John Hanger, secretary of the department, said in a statement last week. “This was not a minor accident, but a serious incident that will be fully investigated by this agency with the appropriate and necessary actions taken quickly.”

National Fuel Gas Co. of Buffalo, New York, said June 4 that one of its subsidiaries is an equal partner with EOG in the well.

BP Effect

The BP spill is “drawing attention to” the risks associated with oil and gas production, said U.S. Representative Maurice Hinchey, a Democrat from New York.

Hinchey has sponsored legislation to require drillers to disclose the chemicals used in hydraulic fracturing, in which drilling fluid is forced into the earth at high pressure to crack the shale and release the gas. The regulation, put in place in 1974, was scrapped in 2005, he said.

Environmentalists were quick to compare the BP and EOG blowouts and call for tighter regulation of the growing use of hydraulic fracturing.

“We see a lot of parallels,” said Amy Mall, a senior policy analyst with the Natural Resources Defense Council, a New York-based advocacy group. “This is a very complex process with a lot of risks and involves a lot of complicated technology. The strongest standards need to be in place.”

More Oversight

ClearView Energy Partners LLC, a Washington-based policy analysis firm, said it expects members of Congress who are critical of hydraulic fracturing to use the EOG accident as grounds for greater regulation.

“Odds for explicit regulation have now increased,” Kevin Book, managing director at ClearView, wrote in a research note last week.

Oil and natural-gas rigs operating in the U.S. Gulf of Mexico plunged by 50 percent last week to a 16-year low, according to data published by Baker Hughes Inc. after President Barack Obama suspended operations at 33 exploratory wells.

The halt in deepwater development took the Gulf rig count down to 23, the lowest level since August 1993. Oil drilling plunged to 9 rigs from 27 a week earlier, and gas rigs fell to 14 from 19.

Obama ordered the halt May 27 at the same time he extended a moratorium on deepwater drilling permits by six months, canceled pending lease sales in the Gulf and off the coast of Virginia and suspended exploration in two areas off Alaska.

Gulf Spill

The Gulf spill started after an offshore platform leased by BP exploded in April and sank, tearing holes in underwater pipes that have since been spewing 12,000 to 19,000 barrels of oil a day into the Gulf, according to government scientists.

“The BP oil spill has raised the profile for any incident, anywhere, anytime,” said Tim Evans, an energy analyst at Citi Futures Perspective in New York. “Nobody wants to be labeled as the next BP.”

Companies can expect heightened scrutiny for incidents that would have been ignored as minor before the BP accident, Evans said.

The New York state Department of Environmental Conservation is completing rules for extracting the gas. Applications from companies such as Chesapeake Energy Corp. are on hold in New York until the rules are ready.

The regulations will be tougher for companies seeking to drill in watersheds that serve New York City and Syracuse. Both systems are exempt from federal rules that require filtration plants.

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