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A Tale of Two Shale States

Pennsylvania's gain vs. New York's missed opportunity.

Politicians wringing their hands over how to create more jobs might study the shale boom along the New York and Pennsylvania border. It's a case study in one state embracing economic opportunity, while the other has let environmental politics trump development.

The Marcellus shale formation—65 million acres running through Ohio, West Virginia, western Pennsylvania and southern New York—offers one of the biggest natural gas opportunities. Former Pennsylvania Governor Ed Rendell, a Democrat, recognized that potential and set up a regulatory framework to encourage and monitor natural gas drilling, a strategy continued by Republican Tom Corbett.

More than 2,000 wells have been drilled in the Keystone State since 2008, and gas production surged to 81 billion cubic feet in 2009 from five billion in 2007. A new Manhattan Institute report by University of Wyoming professor Timothy Considine estimates that a typical Marcellus well generates some \$2.8 million in direct economic benefits from natural gas company purchases; \$1.2 million in indirect benefits from companies engaged along the supply chain; another \$1.5 million from workers spending their wages, or landowners spending their royalty payments; plus \$2 million in federal, state and local taxes. Oh, and 62 jobs.

Statistics from Pennsylvania bear this out. The state Department of Labor and Industry reports that Marcellus drilling has created 72,000 jobs between the fourth quarter of 2009 and the first quarter of 2011. The average wage for jobs in core Marcellus shale industries is about \$73,000, or some \$27,000 more than the average for all industries.

The Pennsylvania Department of Revenue says drillers have paid more than \$1 billion in state taxes since 2006—and the numbers are swelling. In 2011's first quarter, 857 oil and gas companies and affiliates paid \$238 million in capital stock and foreign franchise taxes, corporate income taxes, sales taxes and employer withholding. This exceeds by some \$20 million the total payments in 2010.

The revenue department also identified some \$214 million in personal income taxes paid since 2006 that can be attributed to Marcellus shale lease payments to individuals, royalty income and asset sales. And all of this with no evidence of significant environmental harm.

Then there's New York. The state holds as much as 20% of the estimated Marcellus shale reserves, but green activists have raised fears about the drilling technique known as hydraulic fracturing and convinced politicians to enact what is effectively a moratorium.



Getty Images

A Minard Run Oil Company drilling team lowers steel pipe sections into a recently drilled 2100 foot gas well to "notch" the side walls before a high pressure fracturing takes place in Pleasant Valley, Pennsylvania in 2008.

The Manhattan Institute study shows that a quick end to the moratorium would generate more than \$11.4 billion in economic output from 2011 to 2020, 15,000 to 18,000 new jobs, and \$1.4 billion in new state and local tax revenue. These are conservative estimates based on a limited area of drilling. If drilling were allowed in the New York City watershed—which Governor Andrew Cuomo is so far rejecting—as well as in the state's Utica shale formation, the economic gains would be five times larger.

Consider New York's Broome County, which borders Pennsylvania and from which you can spot nearby rigs. The county seat of Binghamton ought to be a hub for shale commerce, but instead its population is falling as its young people leave for jobs elsewhere.

A study commissioned by the county in 2009 found that Broome could support up to 4,000 wells, but drilling even half that number would create some \$400 million in wages, salaries and benefits; \$605 million in property income from rents, royalties

and dividends, and some \$43 million in state and local tax revenue.

The Broome analysis pointed to Texas, where Chesapeake Energy paid Dallas Fort Worth International Airport \$180 million for drilling rights on 18,000 acres of airport property—\$10,000 per acre. The airport receives a 25% royalty on the natural gas produced by airport wells—more than \$28 million in fiscal 2008. The study also noted the boon that rising oil and gas property values have been to Texas landowners, tax authorities and school districts.

Governor Cuomo has said he wants to lift New York's moratorium, and the state's recently released draft rules are a step forward. But they must still undergo legal review and a public comment period that could bar New York drilling for the rest of this year, if not longer. New York will also still ban drilling in about 15% of the state's portion of the Marcellus and impose more onerous rules than other states on private property drilling. Such bows toward the obsessions of rich, big-city greens explain why parts of upstate New York are the new Appalachia.

As they look across their northern border, Pennsylvanians can be forgiven for thinking of New Yorkers the way Abba Eban once described the Palestinians: They never miss an opportunity to miss an opportunity.

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