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# Rising natural gas prices a boon for companies in western Pa.

PITTSBURGH (AP) — Natural gas coming out of the ground selling for \$2.50 to \$3 per thousand cubic feet years ago kept companies such as Union Drilling Inc. working, CEO Christopher Strong said.

Today, with demand outstripping supply and natural gas priced between \$5 and \$8.50 per thousand cubic feet, Union and its drilling competition rapidly are expanding, many times selling shares to the public to finance growth.

"That's (higher prices) very exciting. You're drilling marginal (less-than optimal) lands, but it's bringing much larger returns to our customers," Strong said. And higher drilling rates for Union and others.

Union Drilling, Linn Energy LLC, Superior Well Services Inc., now or at one time locally based, all went public within the past 18 months to capitalize on the need for their services.

While areas in Texas, Colorado, California and Wyoming are busily being explored, this region, the godfather of U.S. oil production, has become extremely active primarily for natural gas exploration and production.

In June, Pennsylvania issued 430 drilling permits, more than any other state east of the Mississippi River, and third highest total in the nation, trailing only Texas (1,618) and Colorado (532), according to American Oil & Gas Reporter.

Through the first five months of the year, Pennsylvania was ranked No. 7 in terms of well starts with 843, trailing Texas, Oklahoma, Wyoming, California, Colorado and Kansas, RigData reported.

"There is a movement afoot concerning drilling that affects a number of plays (areas) of the country, including Southwest Pennsylvania," said Rick Gordon, an independent oil and natural gas consultant based in Overland Park, Kan.

The movement Gordon referred to is drilling on land in the U.S. Experts say low-risk, stable areas are becoming more important to operators, particularly after the upheaval the oil and gas industry experienced during the 2005 hurricane season and the more recent eccentricities exhibited by Venezuelan dictator and Citgo Petroleum owner Hugo Chavez.

"There definitely is more interest in the onshore U.S.," said Tim Evans, an energy futures analyst in New York for Citicorp. "If you look at all of North America, the onshore drilling rig count now is 46 percent above the five-year av-

erage."

In the U.S. alone, the on-land drilling rig count as of July 28 was up 24.6 percent from one year ago, to 1,598 from 1,282.

Increased activity is keeping companies such as Union Drilling, Mt. Lebanon-based Linn and drilling services firm Superior Well of Indiana, Pa., busy, locally and nationwide.

Each company specializes in different parts of the oil and natural gas industry. Linn is an oil and natural gas exploration and production company, Union Drilling provides drilling services and Superior offers well services, including down-hole surveying and various well-pumping services.

"The activity in western Pennsylvania definitely is increasing," said David Wallace, Superior's chairman and CEO. "You know what you get when you drill in this area; there are no surprises, so you don't have to worry, and you're closer to end users in the Northeast."

Union Drilling and Superior each were formed in 1997. Linn was formed just three years ago. All three went public within the past 18 months.

Once based in Bridgeville, Strong relocated Union Drilling earlier this year to Fort Worth, Texas, primarily to be closer to the area where most of the company's capital investment is and will be. The company still maintains its Northern Division base in Punxsutawney, Jefferson County.

Michael Linn is more than content to maintain Linn Energy's base in Mt. Lebanon, with satellite facilities in Houston, Texas, and, as of last week, significant operations in Orange County,

Calif., and in north central Oklahoma. The company last week announced deals to acquire 681 natural gas and oil wells in the two regions for \$416 million.

Once consummated, the acquisitions will move Linn from having 99 percent of its proven reserves in natural gas, to a 60-40 natural gas-crude oil split, as the company diversifies product-wise and geographically.

"I'm comfortable with that split between gas and oil," said Linn, who has been involved in oil and gas for more than 25 years, and currently serves as chairman of the trade group Independent Petroleum Association of America.

Linn is convinced the Appalachian Basin, including Southwestern Pennsylvania is and will continue to be an attractive drilling location for a number of reasons, including:

- **Low-risk drilling.** Linn Energy has a 100 percent success rate on 200-plus wells drilled annually. Linn operates 1,900-plus wells, and all are considered shallow, less than 5,500 feet deep.

- **Low-cost drilling.** Linn's average well drilled costs \$250,000, compared with other areas of the country or offshore, where a typical well can cost \$2 million-plus.

- **Long-life wells.** Many Appalachian wells produce for more than 50 years.

Appalachia's long-lived assets, high drilling success and proximity to the Northeast market are drawing the attention of outsiders, Linn said.

"The big boys are getting involved with drilling in Appalachia," Linn said. "Anadarko (Petroleum) and Chesapeake (Energy) are here."

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# GOP lawmakers denounce NFG proposal

## *Raucous crowd of homeowners joins in on criticism of surcharge*

By ADAM MILASINCIC  
Staff writer

ERIE — State Republican legislators and a raucous crowd of 200 homeowners pointedly denounced National Fuel Gas Distribution Corp. Wednesday in a hearing that probed the company's proposal to increase its distribution fees by 6.9 percent.

"This is a situation that we're not going to tolerate," bellowed state Rep. Mario Civera,

a Philadelphia legislator who chairs the House Republican Policy Committee. "You can't win this one. Withdraw the application. You're not going to win."

The crowd clapped loudly at Civera's proclamations and at most subsequent remonstrations of the state-regulated utility company that serves 200,000 residents in northwestern Pennsylvania.

When two National Fuel executives began to testify, attendees let loose a sustained

boo. One man shouted that company cost cutting should start with executive salaries.

Civera's eight-member committee convened the hearing at the behest of Erie GOP lawmakers, who said they've been deluged with complaints about the rate change. The state Public Utility Commission has logged a record 754 informal objections, said PUC Chairman Wendell Phillips.

National Fuel announced in June that it had requested PUC approval for a \$26 mil-

lion spike in annual operating costs. That would mean a monthly bill increase of \$9.95 for the average residential consumer.

"My biggest concern is for our constituents who are already struggling to pay their utility bills," said state Rep. Kathy Rapp, a Warren Republican whose district includes Forest County. "It seems like everything is increasing these days except people's income."

The rate adjustment is needed for infra-

structure maintenance and improvement, said National Fuel spokeswoman Nancy Taylor. Under state law, utility companies

must obtain the lowest cost gas and pass that rate onto consumers dollar for dollar. The companies realize a profit only through separate charges on delivery of the fuel.

"We're a pipe company. We don't produce natural gas," said Carl Carlotti, a vice president in National Fuel's Erie office. "We're talking about the price to maintain a

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piece of pipe regardless of a little bit of gas going through it or a lot of gas going through it."

At Wednesday's hearing — and in a spate of angry letters to the editor across the region — National Fuel customers concentrated their ire on a provision of the rate hike that would create a new "energy efficiency rider" to help the company recoup fixed costs when gas usage decreases.

Under the current system, distribution fees are influenced by the amount of gas consumed. National Fuel is pushing for a "decoupling" of costs that would maintain a steady stream of distribution revenue even when conservation leads to less gas sold. Company overhead remains constant, and the pricing system should reflect National Fuel's status as a middleman rather than a gas producer, Carlotti said.

"Under current rate-making, utilities are penalized for conservation," Carlotti said.

"The best thing that can happen from a utility standpoint is to have low commodity prices and cold weather because if you have a lot more gas moving through the pipe — which has fixed costs — it means more money."

Objection to the plan has centered on the perception that consumers will pay more for using less. In fact, conservation will still yield lower bills, said Eric Meinel, a National Fuel manager instrumental in drafting the company's proposal.

If the average customer — who pays \$1,805 per year — cuts back consumption by 5 percent, his annual total would be \$1,734 even with the new charge, Meinel said. More than 70 percent of a gas bill's bottom line accounts for commodity prices. The rest covers delivery, and the energy efficiency rider would add an estimated \$4.12 per year.

Meinel said the overall 6.9 percent delivery charge increase is the price of doing business in northwestern Pennsylvania. Investors would have no incentive to capitalize National Fuel if the company cannot



Photo by Adam Milasincic

**State Reps. Curt Sonney (left), Scott Hutchinson and Robert Flick listen to testimony from Wendell Holland, chairman of the state Public Utility Commission.**

produce an annual return that exceeds the 5 percent level available from low-risk government bonds.

"Simply put, operations in Pennsylvania have not earned — nor are they expected to earn — a return on investment needed to attract capital financing," hence the rate hike, Meinel said.

Consumers in the audience and members of the panel appeared unconvinced, decrying the energy efficiency rider as cruel catch-22 that contradicts common sense business practices.

"In particular, (bill payers) are perplexed and upset as I am that somehow it seems they will be penalized for conserving," said state Rep. Scott Hutchinson, an Oil City Republican. "Based on the information I have now, it does not seem justified."

### What's next?

In the coming weeks, the PUC will determine whether to extend its preliminary review of the National Fuel request, a step that appears likely based on previous cases, said PUC Chairman Holland.

Next, the agency will hold a series of public input hearings throughout National Fuel's service area to solicit formal testimony from consumers. That process takes about three months, Holland said.

Hutchinson said he has requested a hearing location in Venango County and is awaiting a decision from the judge who is

coordinating the arrangements.

After the hearings, an administrative law judge renders a decision on the request, which then is forwarded to the five-member PUC for a final ruling. If approved, the new rates would take effect in February, and the energy efficiency rider would be implemented a year later, National Fuel officials said.

Members of the panel inquired about an array of legislative initiatives that could forestall the National Fuel rate hike and future requests from other utility companies.

Rate decoupling, the device National Fuel has introduced to control its distribution overhead, has been approved in five other states, but remains uncommon in the natural gas industry.

Legislators said a broad change in utility billing practices should be subject to review that exceeds a single company's rate case before the PUC.

"I don't want my constituents as guinea pigs in a major change like this," Hutchinson said.