Shift Toward 'Wet' Gas Doesn't Mean Bust for NEPA, Lawyers Say

By Zack Needles | Contact | All Articles

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Although natural gas explorers and producers have recently turned their attention toward regions that are rich with valuable "wet" gas, regions atop "dry" gas reserves will eventually have their day, oil and gas attorneys said. But that day may be just a bit further off than first anticipated.

In the meantime, lawyers said, gas companies will need to decide whether to let their current leases in dry gas regions lapse. Some lessees, meanwhile, may find themselves in a better position to negotiate leases when dry gas prices eventually rise. With the price of dry gas — gas that is almost pure methane — currently at a paltry $2 to $3 per 1,000 cubic feet, drillers have moved a large portion of their operations from dry gas regions to areas containing more wet gas — a combination of methane and other components such as propane, benzenes and ethane — which is fetching somewhere in the range of $6 to $7 per 1,000 cubic feet in the current market, according to attorneys across the state.

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Oil and gas lawyers said that price disparity has caused drilling operations to slow down in Central and Northeastern Pennsylvania, where there's a high concentration of more pressurized dry gas, and to pick up in Western Pennsylvania, Ohio and West Virginia, where wet gas is plentiful.

But that balance will eventually shift again; it's just unclear exactly when, attorneys said.

"The fact that [dry gas] prices have fallen through the floor doesn't change the fact that the Marcellus Shale is still a huge driving force in our energy economy for the future," said Steve Saunders, a Scranton-based oil and gas lawyer who focuses his practice on representing landowners.

"Whether landowners who signed leases are going to get royalties in the amounts they may have calculated three years ago and whether they're going to have to wait longer is another matter, but the fact is this isn't a bust."

But oil and gas lawyers were also careful not to refer to the current activity surrounding the Marcellus and Utica shales as a "boom," because that term implies a trend that will eventually taper off.

"What's happened to date is a sustained paradigm shift toward long-term, abundant supplies of low-cost natural gas to drive an economic renaissance in the Appalachian Basin," said Michael P. Joy, a partner in Reed Smith's energy and natural resources group. "There really is enough gas here now to drive this renaissance — and it's

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However, with dry gas prices in the tank, drillers are beginning to realize they won't be able to keep pace with the original timelines they agreed to and are looking to renegotiate the terms of their leases in order to push back their expiration dates, Saunders said.

"They're going back to the landowners and saying, 'If you don't agree to give us more flexibility on these terms, we're not going to develop your land,'" Saunders said.

But in many cases, Saunders noted, this is an empty threat, because drillers are unlikely to walk away from land in which they've already made significant investments.

While not every company is bluffing, Saunders said, what happens more often is that drillers and landowners engage in a "game of chicken" in which the drillers must determine whether or not land they've leased is too valuable to simply let go.

In situations where a driller has not yet met the minimum requirements of a lease, a landowner who believes his or her land has a high likelihood of eventually being developed may be better off refusing to renegotiate the terms of the lease in the hope that the lease expires. That way, they can negotiate a new lease later — perhaps even on better terms — and collect another bonus payment, Saunders said, but he added that it all depends on the situation.

Landowners whose leases expire always run the risk of having to settle for worse terms when they negotiate a new lease, he said.

However, in other cases, Saunders said, extending the terms of an existing lease in which the driller has yet to meet the minimum requirements only benefits the gas company.

Joy, whose practice includes representing oil and gas industry clients in leasing transactions, agreed that landowners who are still waiting for development to commence on their properties may find themselves in a better position to negotiate in the future if their existing leases were to expire, likening the situation to the free-agent market in sports.

So while landowners in Central and Northeastern Pennsylvania may currently find themselves having to wait longer than they had originally anticipated to reap the financial rewards of natural gas drilling, Joy said he believes most of them recognize that they stand to benefit in the future when the dry gas market eventually rebounds.

"People have clearly not missed an opportunity," he said.

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But when will dry gas become a sought-after commodity?

Joy said demand still needs time to catch up to supply, explaining that as the amount of natural gas contained within the Appalachian Basin becomes increasingly apparent, more and more sectors of the economy will ramp up their dependency on natural gas as a fuel source.

Joy said the demand side is currently growing, as new infrastructures such as pipelines are being built, petrochemical industries are moving into the Appalachian Basin and vehicles are becoming increasingly reliant on natural gas.

All of that takes time, Joy said, but he added that as those trends continue, drillers will become more interested in extracting from the dry gas reserves in places like Central and Northeastern Pennsylvania.

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