

Regulation makes coal-bed methane industry unsustainable, operator says

Yates raps BLM for slowdown

By DUSTIN BLEIZEFFER - Star-Tribune energy reporter | Posted: Friday, February 26, 2010 12:00 am |

GILLETTE -- Federal regulations have become so onerous that several coal-bed methane operators in the Powder River Basin have appealed their own drilling permits -- an action usually taken by environmental groups seeking more stringent drilling stipulations.

Tim Barber, environmental and federal regulatory supervisor for Yates Petroleum, said it's gotten so bad that coal-bed methane gas is no longer a sustainable endeavor in the basin.

"It's gotten worse," Barber said. "The oil and gas business in the Powder River Basin has carried way more wildlife stipulations than they can sustain, and adding more would be catastrophic."

Barber spoke to hundreds of people -- most of them industry contractors -- in Gillette on Wednesday. It was the second such public forum Yates has organized so far this year.

Steve Frazee, an independent drilling consultant who has contracted for Yates Petroleum in the past, said he didn't work at all last year due to the downturn in the coal-bed methane industry.

"When Yates Petroleum doesn't get to drill a well, this man personally doesn't get to work," Barber told the audience during the last session of the day.

He said too many coal-bed methane workers are out of work while companies like Yates sometimes wait nearly two years to receive approval from the Bureau of Land Management's Buffalo field office.

"That's a tragedy, and it's inexcusable," Barber said.

But BLM officials say there's more to the story.

The coal-bed methane industry holds some 2,125 active permits -- including 235 held by Yates -- but operators have chosen to not drill the wells. It's at least partially a function of low natural gas prices during the past year and a half, according BLM officials.

Yates has actually drilled 78 wells that have not yet been completed, according to the BLM.

During the past year, many publicly traded oil and gas developers told investors they were holding off on new drilling in the Rockies and even temporarily shutting in hundreds of wells to reserve natural gas production because prices were too low.

One such company is Devon Energy, which is a major operator in the Powder River Basin. Devon said while it slowed its Powder River Basin activities during the past year, it will likely increase activities this year.

"We have not participated in this Yates initiative. From our perspective, we have a good relationship with agencies, and we work with them to resolve questions when they come up," Devon spokesman Chip Minty told the Star-Tribune.

Interior actions

Barber said it appears the BLM is playing a bait-and-switch trick on the industry by selling leases without any intention of allowing companies to produce the minerals on those leases.

"If BLM does not wish for drilling to occur, don't lease," he said.

That's exactly what Interior Department officials are now considering.

Last month, Interior Secretary Ken Salazar laid out his plan to overhaul the federal government's onshore oil and gas leasing program, noting that the oil and gas industry amassed a huge inventory of public lands under the Bush administration.

He said the industry holds about 45 million acres in federal mineral leases, yet only about 13 million acres are in production. Environmental groups have accused the industry of making a huge land grab during the Bush administration.

"We believe our oil and gas leasing program is robust," Salazar said during a press conference in January. "You wouldn't know it if you listened to some of the untruths coming out of the oil and gas industry."

Salazar suggested the reason there is so much litigation over oil and gas activities is because, under the Bush administration, federal agencies didn't sufficiently scrutinize the large volume of federal lands that the industry nominated for leasing.

That will change under a retooled oil and gas leasing program, according to Salazar.

This week, the Wilderness Society issued a report supporting Salazar's proposal to overhaul federal oil and gas leasing onshore.

"The Obama administration is implementing reasonable policies to protect the resources that belong to all Americans; clean air and water, wildlife habitat, recreation opportunities and wild unspoiled lands," the report states. "The facts, however, are as the industry's own investor literature clearly states, that industry has, quite rationally, decreased investments in new projects and production in response to current low prices."

Challenges

After first drilling for coal-bed methane on private and state lands in the Powder River Basin, the industry has moved westward and onto more federal minerals where an extensive array of regulations must be met.

Barber said no-surface-occupancy and timing restrictions related to sage grouse and raptor nesting create an almost impossibly short drilling window, for example.

Other stipulations restrict road-building and tying in power lines. That's the reason industry holds so many permits but isn't drilling, according to Barber: because the applications for permits to drill, with so many stipulations, are essentially "worthless."

"There's no connection between prices and the number of APDs," Barber said.

BLM officials say the agency's Buffalo field office coordinates with operators to prioritize applications based on the operators' own schedules and expectations, which means putting off permits that operators themselves say they're not prepared to drill.

That explains why there appears to be a large backlog of applications on the BLM's desk at the same time industry holds active permits it chose not to drill, according to the BLM.

"Operators appreciate this flexibility, but it does result in what appears to be a large backlog. At the current rate it will take industry 2 years 5 months to drill all approved APDs," the BLM Buffalo field office said in a written statement.

In a phone interview, Wyoming BLM spokeswoman Mary Wilson noted that many of the federal stipulations are not new. But they're new to the industry because drilling has advanced from state and private minerals westward onto more federal lands and more environmentally sensitive terrain.

"One of our difficulties is we're out of the easy areas now. We're no longer getting APDs in no-conflict areas. We are now in the areas where it is all conflict: steep slopes, wildlife issues, you name it," Wilson said.

In fact, Yates itself has received numerous exceptions to common federal stipulations, such as surface occupancy related to sage grouse and raptor nests.

Wilson said many of the permit applications that Barber referenced as unduly held up are related to an ongoing management plan revision in the Fortification Creek area where a prairie elk herd lives.

Barber insists that the BLM's processing of permit applications has nothing to do with the price of natural gas. He notes that while the BLM Buffalo field office issued 2,339 permits in fiscal year 2006, it only processed 826 in fiscal year 2009, and still has a backlog of some 2,400 pending applications.

"They should process APDs at their capacity," Barber said. "There's nothing that connects BLM's processing of APDs to price."

Cost of doing business

During the Bush administration, Congress instituted a new drilling permit processing fee of \$4,000 per well. That was increased to \$6,500 per well during the Obama administration.

Barber said it's not unusual for a plan of development in coal-bed methane to include 80 wells. That's \$52,000 in fees up front. In addition, operators that file these applications usually pay tens of thousands of dollars to perform required wildlife and cultural surveys.

"The \$6,500 fee is supposed to cover the work the BLM is supposed to do," Barber said.

Critics say the oil and gas industry's cost of permitting pales in comparison to Wyoming's coal industry. In addition, oil and gas operators can pay a single blanket bond of \$150,000 for all the wells it wants to drill in the U.S.

The Interior Department contends the \$6,500 fee represents not only the cost of processing the permit, but also the follow-up work of monitoring, inspection and enforcement that's required for years and years after a well is drilled.

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By the numbers

* As of September 2008, a total of 29,719 coal-bed methane gas wells had been drilled in the Powder River Basin.

* As of summer 2008, the industry had produced a cumulative 2.9 trillion cubic feet of gas -- about 11.6 percent of the estimated 25 trillion cubic feet of proven coal-bed methane reserves in the basin.

* The industry drilled an average 300 wells each month in 2008. The industry drilled one well in May 2009. No wells were drilled in June.

Yates Petroleum numbers

- * Yates holds 235 approved coal-bed methane permits, but hasn't yet drilled the wells.
- * There are 271 pending permits at the BLM's Buffalo field office, including 24 deferred.
- * 78 wells have been drilled but not completed.