

## Natural gas fields have provided a fount of cash for Texas cities

### Second of two parts

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Michael Henninger/Post-Gazette

Anti-drilling activist Don Young of Fort Worth shows the Post-Gazette a park near his home in Tandy Hills, where drilling opponents fought to preserve the natural landscape from being destroyed.

*Second of two parts. See Part 1 here: "[Deep in the Heart of the Gas Drilling Controversy.](#)"*

FORT WORTH, Texas -- Thirty-nine stories above downtown Fort Worth, in a private penthouse dinner club built with oil and gas fortunes, Mel LeBlanc endeavored to spell out the mindset of those who categorically oppose drilling for natural gas in urban areas.

"Where are they coming from, philosophically?" asked the Arlington city councilman and, as it happens, owner of a philosophy doctorate. "When you really get down to it, they are utopians in many cases. They accept zero tolerance -- [if] anything that you're talking about could ever go wrong, we're not going to do it."

Even if something were to eventually go wrong in Arlington -- and so far, he says, it has not -- Mr. LeBlanc, lunching at the Petroleum Club of Fort Worth, has ample reason to support the concept of urban drilling: Tapping the Barnett Shale, the 5,000-square-mile reservoir of natural gas embedded in rock beneath North Texas, has been a boon to his city's finances. In 2007, Arlington's city stewards set up a nonprofit to handle the city's share of gas royalties and lease payments. Ten percent of the lease money (and half of the royalty money) goes to the city's operating fund.

The remainder -- 90 percent of the lease payments and half the royalties -- goes to the Arlington Tomorrow Foundation, which issues grants that support arts, recreation and historic preservation. In just three years, the foundation has put \$70 million in the bank. In 20 years' time, the balance may approach \$225 million.

"We're not Fort Worth. We're not Dallas," which have flush, old-money foundations, Mr. LeBlanc said. In Arlington, three years ago, the biggest nonprofit endowment was just \$12 million. "This gas money [is] a once-in-a-lifetime opportunity as a city to get the financial footing that we need, [to] become the city that we envision."

Imagine if Pittsburgh, with a budget and population somewhat comparable to Arlington's (our 312,000 people to their 380,000, our \$450 million operating budget to theirs, \$350 million), were able to leverage its position over the Marcellus Shale to create instant revenue. What might that pay for? A solution to the city's pension crisis? More police officers? More regular street paving?

This is the flip side to the anti-drilling argument: There's money to be made, jobs to be created and -- if you play your cards right -- public institutions to be rescued. To do it, though, requires drilling in places like Fort Worth and Arlington, already densely populated areas that continue to grow and sprawl into the disappearing Texas countryside.

As with southwestern Pennsylvania now, deep gas drilling in North Texas began in rural expanses, for a number of reasons. Land is cheaper and the plots are larger. Political barriers are lower. Media scrutiny is less intense. Neighborhood resistance is less organized, because in many cases there are no neighbors to be bothered.

PG VIDEO: DEEP IN THE HEART: LESSONS FROM TEXAS, PART 2



But eventually, drillers crept toward the city. It wasn't necessarily because the energy companies were itching for a political fight.

"Where they want to drill has a lot more to do with what is below the surface than what is above the surface," said Paula Knowles, an intern for Democratic state Rep. Lon Burnam doing graduate research at the University of Texas at Arlington on urban gas drilling.

Energy company geologists look for easily accessible shale and gas formations first "and then they deal with the other issues accordingly," she said.

And Fort Worth, all 700 square miles of it, happens to be sitting on one of the Barnett Shale's many sweet spots. The Dallas-Arlington-Fort Worth metroplex is home to nearly 7 million, growing by 150,000 every year, due in great part to the area's emergence as one of the nation's energy capitals.

First oil, then gas

It was not always so. Fort Worth was nicknamed "Cowtown" for its cattle stockyards; Dallas was built on cotton and grain; Arlington had barely 4,000 people living in it by World War II (Pittsburgh's population at the time was more than 670,000).

Though the first producing Texas oil well was drilled in 1866, three decades passed before oil was a commercially viable product. In the 1930s, when oilfields were discovered 100 miles to the east of Dallas, near Kilgore, Texas, it was Dallas that became the industry's nerve center, financing the development of oilfields in the Texas Panhandle, the Gulf Coast and Oklahoma.

"When oil came gushing into Texas early in the 20th century," writes Mary G. Ramos in the Texas Almanac, "petroleum began to displace agriculture as the principal engine driving the economy of the state."

But even though energy sector has been part of the Texas fabric for the nearly a century, drilling within the cities that financed the sector is a novelty. There are no oil wells in Dallas, nor are there any gas wells (not yet anyway, though ExxonMobil subsidiary XTO Energy wants a permit to drill on city land and Dallas city council is considering it). The first gas well in downtown Fort Worth came in 2008, a decade after deep shale drilling began in suburbs and rural areas.

Still, given the region's infatuation with the energy sector, and a city council and mayor who have been accommodating, "Fort Worth was just the perfect location for this experiment of urban gas drilling," said Ms. Knowles.

"And it's a pretty risky experiment, isn't it?"

Urban gas drilling means putting rigs and fracking drainage pits near homes and apartment complexes, on inner-city industrial tracts and vacant shopping mall lots, and, in Arlington, even on an urban golf course. In 2010, Marsh Operating Co. laid a pad and erected drilling equipment at Rolling Hills Country Club, a struggling course hemmed in by commercial and residential development on all sides.

From that site, the horizontal drilling technique -- which allows for the drilling of L-shaped wells -- will allow Marsh access to a vast radius of below-ground mineral deposits, retrieving the natural gas beneath nearby homes and churches, with their consent.

Wells crowd out greenery

One symbol can mean two different things to two different factions. Drilling advocates point to the golf course drilling rig and say: See? Gas wells can co-exist with the urban landscape. Opponents point to the same rig and say, maybe so, but why would you want it there?

"This city has now become an industrial zone, and we've lost thousands of acres of green space to drilling in the past five years," said Don Young, an anti-drilling activist who lives in Fort Worth.

Mr. Young, a stained glass artist, says he became an instant activist when an energy company tried to drill in his front yard. In Mr. Young's case, his "front yard" does not belong to him; it is Tandy Hills, 180 acres of knotty oaks and hip-high bluestem grasses, one of the only authentic patches of native North Texas prairie you can find nowadays in Fort Worth.

From the front room of his home, you can see the prairie grass swaying across the street. Mr. Young and concerned neighbors used Tandy Hills to bring public focus to the issue of urban drilling, but Chesapeake Energy was able to secure the rights to a plot of privately owned land adjacent to Tandy Hills. It will be able to use that massive pad site to drill extensively for gas beneath the park.

In rural Texas, a pad site this size -- three football fields in area -- would be barely noticed. In the city, it can accommodate multiple wellheads and could mean multiple headaches for neighbors: dust, noise and increased truck traffic initially, and the installation of a pipeline that takes the natural gas away from the wells and to a main line.

In Mr. Young's view, drilling near Tandy Hills is not much different than drilling in it.

"The very landscape [of the region] is going to be altered," he said.

'You can't be undrilled'

Later, on a driving tour of Fort Worth and Arlington, he motions to the golf course and calls it an eyesore. While the rig was disassembled a few weeks later, the pad site and wells will remain there for years, decades, to come, all but prohibiting any future uses for that chunk of the golf course property. And on larger pad sites, you can drill multiple gas wells; the rig may be disassembled today, but another one may be built in a few years, once prices come up.

"Once you've been drilled," Mr. Young said, "you can't be undrilled."

Of course, the alternative to a drilling rig (and, later, gas wells) on a golf course might have been no golf course at all. Prior to striking the lease and royalty deal in 2007, Rolling Hills was under pressure from city officials and some country club members to sell the land to developers for \$34 million; it was said to be the preferred site of the George W. Bush Presidential Library.

The \$800,000 in gas lease revenue helped save the course, built in 1954 when outer Arlington was orchards and dairy farmland, when Interstate 30, which traces the course's south edge, didn't exist.

"There's just not many locations left like this, green belts left in the city," said John McGowdy, general manager of Rolling Hills' 97-acre golf course. But even though drilling helped preserve, and upgrade, this bit of green space, the decision to drill was controversial. Mr. McGowdy said his golf club lost 10 percent of its members because of the execution of the gas lease.

"That split the club down the middle," he said. Some left because they thought the course -- which is member-owned -- would be devalued, others because they simply didn't want to golf in the shadow of a rig.

But in the end, the golf course needed the money and Marsh Operating, which drilled and fracked six wells and may someday return to drill a dozen more, was willing to spend it, with upfront payments and the promise of future royalties.

Buying their way in

This is how drillers are often able to get their way, even in densely populated parts of the city: They flash a lot of green to people who need it. Sometimes it's an aging city golf course. Sometimes it's a poorer residential neighborhood.

Sometimes, it's an institution of higher learning. The University of Texas at Arlington, where Ms. Knowles was pursuing her master's degree, is within Arlington's city limits. But because it is on state-owned university land, it isn't bound by local municipal rules governing urban gas drilling. Carrizo Oil & Gas Inc. operates 22 wells on university property.

"I was driving down to Austin several years ago and began to notice all these rigs popping up," said Rusty Ward, who just retired as UTA's chief financial officer and business affairs vice president. He learned that the drills were probing for natural gas, and began probing whether energy companies would be interested in the wooded 400 acres on the southeast edge of the campus.

That site is also within 500 feet of a YWCA, a day care and the nearest home. Neighbors worried about accidents, noise, even radiation and asthma -- one report, released in 2010 by the Community-wide Children's Health Assessment and Planning Survey, suggested that 1 in 4 children ages 8 and 9 has asthma in North Texas counties where Barnett Shale drilling is the heaviest. Drilling skeptics latched onto this survey as evidence that drilling was damaging air quality in the region.

"Once we decided to do this, all hell sort of broke loose," Mr. Ward said.

"People said I was going to blow up the place."

The place hasn't blown up, but its scholarship fund has. Since 2007, when the first rig arrived, UTA has made millions in royalties and upfront, per-acre lease payments, money that was directed toward endowments and matching funds for student scholarships.

And technology improvements have minimized the footprint of the drilling site. Several years ago, a pad to accommodate 22

wells might have been 5 acres or more, but Carrizo was able to install the wells on 2 1/2 acres, preserving additional acreage for future drilling.

#### Talk of the town

Despite success stories, people remain wary about urban gas drilling, and it's hard to overstate the degree to which gas drilling dominates the news cycles.

The local newspaper, the Fort Worth Star-Telegram, runs a weekly report on all the newly active rigs in the 24-county area -- usually there are several dozen new rigs put up each week. In a three-day span three months ago, the newspaper and TV news reported on the city school district's ongoing gas lease negotiations, city council's long-debated air quality study, lawsuits over polluted water wells, and an early morning gas leak (and resulting vapor cloud) at an XTO Energy well site north of Fort Worth.

Some in Fort Worth object to urban drilling notionally, concerned about long-term water quality and health effects. But others object to the way they've been treated by the industry and its "landmen" -- the free-agent real estate negotiators who gather signatures on behalf of drillers, bundling them and then selling the waivers, titles and leases to energy companies.

The process sometimes pits neighbors against one another.

"I would describe myself as very pro-drilling, pro-oil, pro-gas," said Laura Reeves, a Fort Worth resident who lives in an impeccably decorated townhome and can't remember the last Democrat she voted for.

"I have friends who work for Chesapeake. I know people who need their jobs. I don't disagree with drilling for gas. I disagree with drilling for gas in the middle of a (populated area)."

Chesapeake Energy wants to drill on a vacant tract of land to the immediate south of her new, gated townhome community. Her complex, and that empty tract --being called "Westridge" by Chesapeake -- are just a few hundred yards west of Como, a historically black neighborhood. Mrs. Reeves says the industry has tried to take advantage of the poverty levels in Como.

The landmen wanted Mrs. Reeves and neighbors to sign waiver agreements, allowing Chesapeake to drill within Fort Worth's prescribed setback radius if city council subsequently approves the variance request. The "setback" is the minimum distance that a well must be from the nearest home; in order to drill inside the city's 600-foot setback radius, an energy company has to get enough neighbors to sign waiver agreements, and it often sweetens the pot with waiver bonuses.

The waiver payments are thank-you notes written in cash, because the people who sign the waivers -- townhome residents, renters, business owners -- often won't see any other money from the drilling. They won't get royalties, because most don't own any mineral rights, and they won't receive a surface lease payment, because the drilling isn't happening on their property.

The first offer that Mrs. Reeves received from the landman that knocked on her door in autumn 2009? Sign the waiver and she gets \$74.

Small potatoes to her -- but more attractive to those living in poverty, she said. Waiver bonuses can increase dramatically if you live closer to a drilling site, or if you live in a more well-to-do neighborhood, but generally landmen want to get the best lease and waiver terms, at the lowest price, for the companies they represent.

"You may as well sign," the landman told her, because "78 percent of your neighbors have signed." Turns out only three of her 70 fellow townhome owners had signed waivers, she said.

But because landmen aren't employed by the energy companies, and because there is no state board that licenses or regulates these middlemen, punishing them for misrepresentations is difficult, according to foes.

"I realized some of them had signed the waiver and didn't have a clue what they signed," said Mrs. Reeves. "They felt stupid because they just believed what the landmen told them."

When Mrs. Reeves and others tried to fight off the Chesapeake project -- organizing community meetings, attending city council hearings, going door-to-door in Como -- she says she was caricatured by some in the energy industry as a bored, blonde housewife.

"I was insulted," she said. "They were counting on me, the white blonde, not [setting] foot in a black neighborhood."

But she did, and for a time, it appeared that the drilling project near Como would be rebuffed; Chesapeake withdrew its drilling request last August. In February, though, landmen made headway with one of the neighbors to the west of the

Westridge site, a prominent businessman, and Chesapeake now intends to drill a few hundred feet to the west of its original location.

Ms. Knowles, the master's student -- whose boss, state Rep. Lon Burnam, called for a moratorium on new Texas drilling permits -- said the landmen are often accused of misrepresenting the degree of neighborhood unanimity as well as the scope of the drilling projects. They say that the rigs will be up for only a few months, which is often true.

What they don't say is that the rigs can return again and again to drill new wells, as long as they have an active lease. Or that a "few months" of disruption can turn into a few years, or that your home value could decline.

"Nothing can be done if they lie, cheat or steal," she said.

Gas lines another issue

Another thing that landmen may or may not bring up is the issue of gas lines. To get the raw gas to market, the energy companies or subcontractors will also eventually have to build "gathering" lines from the pads to the nearest processing plant.

In Texas, energy companies and private pipeline owners are treated more or less like public utilities, and they have the ability to condemn pieces of private property, if need be, in order to lay the gathering lines.

"That creates a whole new issue," said Democratic state Sen. Wendy Davis, a former Fort Worth city councilwoman.

"You get lines crisscrossing all over your city ... and once you've laid a line that's carrying natural gas, you can't develop it" or put other utilities beneath it, like electric or sewage. "The most you can do is put a surface parking lot on it."

And that's just the lines they know about. Pipeline maps and surveys have proven unreliable, and records from the Texas Railroad Commission, which issues the operating permits for the raw gas lines, are often incomplete, critics say.

"There are lines all over the place that really no one at the city levels were ever told," Ms. Davis said. "And we may find that it inhibits" future development -- or, worse, could cause an accident when someone tries to dig a backyard swimming pool and finds that the gathering line is not where the pipeline company thinks it is.

Add the 360,000 miles of gathering line in Texas to the 20,000 Barnett gas wells, all of it being monitored by just a handful of state inspectors, and people have good reason to worry. "Who can feel safe [when] that's the way it's functioning?" Ms. Davis said. "You can't trust these companies to self-police."

Mr. LeBlanc, the Arlington city councilman, said issues such as setback distance and pipeline mapping are regulatory matters that can be tackled with a bit of legislative foresight. But no amount of regulation can eliminate risk.

"To apply the standard of zero tolerance and perfection to an industry such as this -- so important to our geopolitical situation worldwide, so important to our local economy, so important to cities like Arlington," makes no sense to him.

Accidents can and will happen, but they happen in steel mills and coal mines, too, and nobody ever talks about a moratorium on steel production, or banning air travel after a crash.

"I have been on American Airlines flights. They've exploded in the past. They're going to explode in the future. I'm still going to get on them -- that's just modern life."

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