# Louis W. Allstadt – From Supporter to Skeptic on New York State Fracking

By Peter Mantius, on October 1st, 2012

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## DEC Not Up To The Job – Oil & Gas Industry Influences Regulators


Louis W. Allstadt

COOPERSTOWN, N.Y. – Former Mobil Oil Corp. executive Louis W. Allstadt did not start out as an anti-fracking activist. He had to analyze the issue and then switch sides.

Initially, he bought into the natural gas industry's gaudy promises that high-volume horizontal hydrofracturing could work economic miracles in rural upstate New York. He wrote in a 2009 newspaper opinion article that gas drilling "could provide enormous quantities of clean-burning natural gas with great economic benefits" to the state.

Now he is convinced the economic prospects are largely hype and that the state's environmental regulators are disturbingly unprepared to deal with the side effects of such an invasive industrial activity.

"It's a bad idea for New York State," Allstadt said in recent interview, echoing detailed letters he has written to Gov. Andrew Cuomo and other state officials.

The industry has tried to downplay the fact that he has switched sides, challenging his credentials. "Lou was a policy guy in refining," said Scott Cline, an industry spokesman who holds a Ph.D in petroleum engineering. "He's talking about things he doesn't know anything about."

Actually, Allstadt headed Mobil's oil and natural gas drilling in the western hemisphere before he retired to this tony lakeside village about a decade ago. He also supervised Mobil's side of the company's 1999 merger with Exxon that created the world's largest corporation.

Today Allstadt, 69, splits his time between a spacious restored townhouse a few hundred feet from the Baseball Hall of Fame Museum and a waterfront house halfway up the east side of Lake Otsego. If his retirement plan was to shift his focus from supertankers to kayaks, the flap over fracking has drawn him back into the energy policy fray.

Cline questions Allstadt's authority to weigh in. "Talk to his former company, Exxon," Cline said. "They've invested heavily in (gas driller) XTO and they believe in shale gas … I classify Lou as somebody who lives in Cooperstown who doesn't want drilling in his backyard."

But Allstadt says it is not so much his personal property, but rather the state's waters and taxpayers that are threatened. He points out that the Cooperstown area is not prime fracking territory for reasons of both geology and politics. Although much of the surrounding countryside has been leased by zealous landmen, three test wells recently drilled nearby were all plugged and abandoned after yielding almost no gas.

And when Cuomo indicated in June that he was close to allowing fracking in a few areas near the New York-Pennsylvania border, Cooperstown clearly fell outside his target area. Since then, the governor has extended a moratorium on all high-volume fracking in New York State, pending a new health impact study that will take months.

The state should have ordered the health study years ago, Allstadt argues, and its failure to do so is a symptom of a deeper problem. In his view, regulators at the state Department of Environmental Conservation are so steeped in the industry mindset that they continue to sidestep a host of costly challenges, such as disposing of toxic fracking wastewater and financing repairs on roads and bridges beaten up by fracking trucks.

Meanwhile, gas drillers criticize the DEC for withholding permits to frack New York’s Marcellus shale even as Pennsylvania has been issuing them for years.

As the fracking debate rages on, Allstadt has not been a particularly splashy activist. He has limited his public speaking to a few even-tempered, rather dry, presentations to local community groups.

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James “Chip” Northrup

His approach stands in sharp contrast to James “Chip” Northrup’s, who lives a few doors down Main St. A confrontational energy investor with a Texas twang and an accounting MBA from Wharton, Northrup argues that the shale gas boom is an unsustainable bubble.

“I still go out to make presentations in hostile groups,” Northrup said. “Lou has the good sense to avoid that.”

In June, Northrup ventured into a sharply divided audience in the Keuka Lake town of Pulteney to urge locals to pass a moratorium or ban on fracking. After Northrup jokingly introduced himself as the second smartest oil and gas guy in Cooperstown – after Allstadt – Cline, the petroleum engineer, suggested that neither man had much to offer.

“He was dissing Lou. He was dissing me,” Northrup said. “So I said, ‘I think you need to ask me your question out in the parking lot.’”

That is typical, said Ellen Pope, executive director of Otsego 2000, a 31-year-old non-profit group that promotes tourism and agriculture around Lake Otsego. “Chip loves to push buttons. Lou is much more measured.”

Allstadt retired to Cooperstown in 2000 with his wife Melinda, who sings in a local a capella group. They had discovered the town in 1970s when he was based in Manhattan. First they bought a fixer-upper on the lake, then they upgraded. Later, when he was stationed in Singapore and Japan, she and the kids spent summer retreats at the lake.

Allstadt had grown up on Long Island and graduated from the U.S. Merchant Marine Academy, training ground for many a ship captain. He later earned an MBA from Columbia University.

He was in his mid-20s when both Mobil and Exxon made him similar job offers. He chose Mobil and rose through a variety of domestic and international posts. He served as chairman of Mobil’s companies in Japan and as head of the corporation’s worldwide supply, trading and transportation organization. After taking over as head of exploration and production in North

America in 1996, he was promoted to head of oil and natural gas drilling in the western hemisphere in February 1998, 21 months before Mobil merged with Exxon.

One blogger for a pro-fracking website funded by the American Petroleum Institute had no trouble dismissing those credentials. He reported that Allstadt owned a four-seat private plane that burned 18.4 gallons of fuel per hour and joshed that he might want to convert it to fly on compressed natural gas. In the same post, the blogger wrote, “I don’t exactly know what Allstadt did for Mobil but he was not there long and I can see why.”

Actually, he spent his entire 31-year career at Mobil.

Allstadt left before high-volume fracking became all the rage. The process had gained traction after winning exemptions from key provisions of federal clean air and water laws in 2005, but it burst into a speculative frenzy after the Securities and Exchange Commission loosened rules for counting gas reserves in final days of the Bush Administration in late 2008.

The process involves injecting roughly four million gallons of water, along with sand and chemicals, into each well. Explosions crack the shale, and the sand props open fissures to allow the gas to flow upward.

The Marcellus Shale formation, which extends from upstate New York down through Pennsylvania, West Virginia and Ohio, is widely viewed as one of the world’s largest stores of natural gas. Most experts agree that high-volume fracking is the best way to tap it.

Allstadt appreciated the potential, but was attuned to the need to regulate it strictly. Over time he concluded that that was not likely, given the DEC’s apparent pro-industry bias.

If he had one wake-up call that turned him into a skeptic, he said, it was drilling setbacks – the minimum distances gas wells must be from homes, public buildings and public sources of drinking water.

He hunted for details in the DEC’s 1,000-plus-page, boiler-plated guide to fracking regulations known as the 2011 Supplemental Generic Environmental Impact Statement, or SGEIS. No luck.


DEC Commissioner
Joe Martens

“The distance from a person’s home to an invasive industrial activity is of utmost importance,” Allstadt wrote DEC Commissioner Joseph Martens in January. “The public had every reason to expect that this information would be prominent in the 2011 SGEIS. It is not.”

The SGEIS is a supplement to the state’s original Generic Environmental Impact Statement for gas drilling, written in 1992 – more than a decade before the advent of high-volume, horizontal fracking of shale. The 1992 GEIS addressed far less invasive conventional vertical gas wells.

The 1992 GEIS said it was OK to drill beyond 100 feet from a home or 150 feet from a public building. Presumably, Allstadt concluded, those limits carry over for fracking.

The 1992 setbacks seemed inappropriate for modern fracking, given that current setbacks in Midland, Tex., an oil and gas hotbed, are 1,320 feet from either a house or a public building.

Setback rules for public water supplies in upstate New York were also troubling. The 2011 SGEIS calls for a 2,000-foot setback around such lakes and rivers, but steams that feed them would be protected by only a 500-foot setback. And those distances are subject to change back to as little as 150 feet after three years. By contrast, water supplies in the New York City and Syracuse watersheds are protected by 4,000-foot setbacks.

Cline, the industry spokesman, acknowledged that the state’s setbacks are “in flux.”

Allstadt’s response: “I certainly hope so. They’re totally inadequate.”

As Allstadt cruised through the 2011 SGEIS, he found it to be full of little tricks and loopholes that invite exploitation by the industry, especially its less responsible players. “If you read the SGEIS and you’ve worked in the industry, you know who wrote it. It’s pretty blatant,” he said.

For example, the original 1992 GEIS capped water use at 80,000 gallons per well. Without explanation, the DEC nearly quadrupled that limit to 300,000 in defining high-volume fracking in the 2011 SGEIS. That rewrite allows drillers who use less than 300,000 – even those fracking shale – to ignore regulations that apply to more water-intensive wells, such as bans on open pits for chemicals or wastewater.

The 2011 SGEIS also takes a relaxed approach to handling hundreds or millions of gallons highly toxic fracking wastewater, which typically contains brine, hazardous chemicals, heavy metals and radioactive materials. The DEC calls for an antiquated, paper-based system for tracking the wastewater disposal.

Drillers and their truckers have a financial incentive to illegally dump the frackwater in fields and streams, as Pennsylvania fracking communities have already discovered. Given that most modern trucking fleets use real-time GPS tracking, Allstadt said, the DEC could have – should have – insisted on a real-time tracking system with real teeth.

The DEC’s failure to establish – let alone enforce – rules that adequately protect the environment is not the only subject that gives Allstadt pause.

“The economics no longer look as compelling,” he said.

Widely touted early estimates by Penn State Professor Terry Engelder that the Marcellus Shale held some 484 trillion cubic feet of recoverable natural gas now seem a stretch in light of the United States Geological Survey’s more recent estimate of 84 Tcu.

For certain investors, Engelder’s rhapsodies on the size and promise of the Marcellus once proved bewitching.


T. Boone Pickens

Consider the case of a penny stock company called Mesa Energy Holdings Inc. In a press release issued May 15, 2010, Mesa announced that it was focused on “the Devonian Black (Marcellus) shale in the northern Appalachian Basin in western New York” and that it had hired former New York Gov. George Pataki as chairman of its advisory board. The Dallas dateline on the release and the similarity of the company’s name to Mesa Petroleum Corp. may have suggested a link to its former boss, famed oil and gas man T. Boone Pickens. The fact that no affiliation existed did not keep the stock from more than doubling to $3 on the news of Pataki’s involvement. Within weeks the shares slumped to 20 cents.

Clearly, Marcellus shale did not automatically mean profits.

“It’s also becoming more and more clear that the gas is not ubiquitous in the shale,” Allstadt said. “It’s not different from other minerals, you have to find the right spot.”

That is particularly true now that the shale fracking boom has led to a natural gas glut that has suppressed the market price of gas. Facing low margins, drillers are concentrating on the most productive wells.

In Pennsylvania, where drillers have had wide latitude to frack shale at will, drilling is increasingly limited to a few isolated “hot spots.” In addition, the eastern portion of the Marcellus formation tends to produce a “dry” gas that is not as economically desirable as “wet” gas more commonly found in Ohio and western Pennsylvania.

Hot spots are uncommon in New York State, where the Marcellus Shale tends to be shallower and drier than ideal.

As a rule, the more marginal geological locations tend to draw more speculative, financially leveraged drillers as opposed to stable, well-capitalized energy giants like Exxon/Mobil.

Gastem and Norse, two companies that have leased extensively in Otsego County, are both penny stocks with total market capitalizations of less than $10 million. Chesapeake Energy, the nation’s second largest gas driller, has leased extensively in less desirable gas drilling territory around the Finger Lakes. But it is a highly leveraged company that has had to rapidly sell billions of dollars in assets – some to the Chinese and other foreigners – to avoid bankruptcy.


Ron Bishop

"At Mobil, Lou didn't have much to do with poorly capitalized companies," said Ron Bishop, a biochemist from Cooperstown who has written extensively on fracking chemicals. "These shoestring operations were part of his radicalization."

While Allstadt might not accept the term radicalization, he has expressed concern that New York's inferior geology will tend to draw the industry's marginal players, at a potentially significant cost to taxpayers.

"Small, low-cost operators might give it a shot here, but you're much more likely to screw things up with small operations," he said.

Taxpayers may be vulnerable if the state does not develop a more rigorous process for recouping the costs of road repairs, spills, accidents, wastewater disposal and plugging abandoned wells. Allstadt even urges the DEC to require drillers to use tracer agents in their drilling chemicals in order to clearly identify the culprits when private water wells are contaminated.

The industry tends to resist that level of strict accountability, and Allstadt believes the DEC has shown a willingness to defer.

Consider the DEC's rules for bonds drillers must hold to cover the cost of plugging and abandoning old wells.

For each of its first eight wells, a driller much obtain a $250,000 bond – a figure Allstadt accepts as appropriate. But no bond is required for any well after the first eight. The total bond required for eight wells is the same as it is for 100 wells: $2 million.

That formula appears to favor stable, established operators. But Allstadt knows from personal experience that it ignores a common industry practice and actually puts taxpayers at significant risk.

"When my production trails off, I will sell my 100 wells to an operating company, who will pick up my $2 million bond," he said. "The buyer may not do quite as much maintenance, then sell it further down the food chain.

"Eventually it gets down to a guy that has a corporation for each well, and when production isn't enough to cover the cost of operating the wells, he just says to the DEC, 'Well, sorry guys. I'm going to have to abandon this whole project. Please keep that bond money.'"

So the state is left with $2 million to cover a $25 million well plugging expense. "Either the wells aren't going to get plugged at all, or the taxpayers are going to get stuck for the extra $23 million."


Peter Mantius

Peter Mantius is a reporter in New York. He covered business, law and politics at *The Atlanta Constitution* from 1983-2000. He has also served as the editor of business weeklies in Hartford, CT, and Long Island. He is the author of *Shell Game* (St. Martin's Press 1995), a nonfiction book on Saddam Hussein's secret use of a bank office in Atlanta to finance billions of dollars in arms purchases from Western countries before the 1991 Persian Gulf War.