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The Atlanta Journal-Constitution

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Gas drillers turn to Georgia

By DAN CHAPMAN

The Associated Press

DALTON, Ga. — Trillions of cubic feet of natural gas believed to lie below the hills of northwest Georgia have remained virtually untouched and unwanted — until now.

Shale gas drilling is slowing across the country, but a handful of companies are poking around this corner of the state looking for the next natural gas "play." If they succeed, Georgia could join the ranks of states reaping jobs, revenue and fears of environmental damage from energy production, The Atlanta Journal-Constitution has learned.

It has been at least 30 years since Georgia — which has never produced a drop of oil or natural gas — has seen as much exploratory activity.

An Oklahoma-based company that leased 7,500 acres of land outside Dalton has two test wells in place and plans another nearby. Seventy miles away, near Cave Spring, a Texas oil, gas and development conglomerate plans a deeper well.

At least three other companies have recently researched the so-called Conasauga shale field, a 20-by-100 mile swath of farm and forest that runs from Alabama across Georgia and into Tennessee.

Georgia joins Tennessee and North Carolina as Southern states newly popular with wildcatters and major gas and oil companies.

"They know that there's gas here," said Rick Huggins, whose mineral rights lease outside Dalton was recently re-upped by the Oklahoma explorers. "But it's all speculation. It's like old Forrest Gump said, 'You don't know what you got until you open up that box of chocolates,'"

The timing is odd. A gas glut and low prices make extraction economically unfeasible in many parts of the country. Production has throttled down in Pennsylvania, Texas and Kentucky.

Northeast Alabama raged with gas fever until 2010 when low prices and technological hurdles cooled the interest. Georgia doesn't

have the infrastructure — the trucks, tanks, pipes and refineries — needed to transform a liquid into a fuel to heat homes and cook food.

Oil and gas men are gamblers, though, looking months or years ahead. Energy analysts predict natural gas prices will rise again as it increasingly replaces coal and other petroleum products. And where there's gas, there's usually oil and other money-making liquids nearby.

Jerry Spalvieri likes the odds. A wildcatter, or independent explorer, Spalvieri is betting maybe \$2 million that the Conasauga field in Northwest Georgia will give up liquid riches.

"You have to be a gambler because I look back and see where we lost a couple of hundred thousand dollars here and there and realized we shouldn't have done that," said Spalvieri, CEO of Buckeye Exploration of Chandler, Okla. "But the fun is in the hunt."

Bounty unclaimed

In Alabama, the Conasauga shale field contains 625 trillion cubic feet of gas, according to Bill Thomas, a geologist who taught at the University of Kentucky and Georgia State. A similar amount could be underground in Northwest Georgia, he added.

Wildcatters have poked around the state since the 1950s. Georgia officials in 1958 were so determined to create an oil industry that they offered a \$1 million reward for the first gusher. The bounty, since reduced to \$250,000, remains unclaimed.

Most drilling took place on the Coastal Plain, below the so-called Gnat Line that runs from Columbus to Augusta. Between 1903 and 1979, according to the Bureau of Land Management, 163 wells had been drilled in Georgia.

"All wells have been dry," the BLM said in 2008. "No oil and gas wells are forecast to be drilled in Georgia in the next 10 years."

Spalvieri received Permit Nos. 166 and 167 for his test wells outside Dalton in March 2010. Alabama, with on- and off-shore gas and oil wells, has issued 16,700 permits since 1945, according to the state's oil and gas board.

Drawn by the geologic similarities embedded in the Conasauga formation, Spalvieri investigated Georgia in 2007. Within two years Buckeye and a partner had leased 7,500 acres of mineral rights from 130 landowners. Hundreds of acres remain under contract. The leases allow unlimited drilling on the property.

"Nobody was very optimistic about it, including the state. It was like I was being a bother to them," said Spalvieri. "But it just staggers me that the largest land area in the East had never had a producing oil or gas well."

Buckeye narrowed its search to two properties about seven miles northeast of Dalton. They began drilling in the Good Hope community in late 2010, but stopped after a few hundred feet once rivers of water intervened.

Buckeye drilled 5,065 feet at the other well a few miles away. They needed to go deeper. Spalvieri will soon bring in another rig to reach 9,000 feet. He'll also re-engineer his first well and dig another test well.

"It's rank wildcat. There's very little known about the gas in the area," said Spalvieri, a petroleum geologist whose company has dug more than 250 wells — and hit the jackpot a half-dozen times — across Oklahoma and Tennessee. "But I'm really encouraged by the structure and some of the things we've encountered."

At least three other companies are interested. Forestar, a publicly traded Texas real estate, timber, oil and gas company, controls mineral rights for 67,000 acres in Floyd and Chattooga counties. In all, Forestar owns nearly 600,000 acres of oil and gas mineral rights in Texas, Louisiana, Alabama and Georgia, its website says.

The company expects to start drilling in Cave Spring in May, according to a state permit. The planned well even has a name: John Wayne-Mudcreek No. 1. At 14,000 feet, it would be one of the deepest ever in Georgia. Forestar declined comment.

Jim Kennedy, the state's geologist, says another company is considering the shale gas fields of the Mesozoic Basin that covers 60 percent of the Coastal Plain in South Georgia.

Georgia's neighbors to the north aren't wasting time either. Regulators in Tennessee and North Carolina are updating drilling and fracking rules. The Chattanooga Free Press reported earlier this month that a half-dozen drilling companies are considering mineral rights leases in Hamilton County bordering Georgia.

A natural gas industry in Georgia could bring the state jobs and tax revenue.

"It would change the whole dynamics of the state economy, but it all depends on the scale of production," UGA economist Jeff Humphreys said. "Georgia has always been an energy consumer, not a producer. This could prove a counter-weight to the damage

done to the state economy whenever energy prices rise."

Northwest Georgia, whose flooring industry was hit hard by the recession, could use a new industry. Dalton's unemployment rate remains stubbornly high at 11.3 percent.

A few Georgians already benefit from mineral lease payments. The big bucks come if Buckeye or Forestar hits a gas gusher. Property owners would receive royalty payments equivalent to one-eighth of the market price of gasoline.

Fred Mayfield, a Dalton CPA and gentleman farmer with cows, horses and 175 acres of forests and pastures, doesn't really need the riches that one day could flow from his Buckeye well. "I'm pretty comfortable now," he said. "But I suspect if they strike gas or oil it might affect my children's lives."

Industry re-energized

Natural gas production nationwide was in decline until 2005 when technology — horizontal drilling and the hydraulic fracturing, or fracking, of prehistoric rock to release the gas — re-energized the industry. Fracking makes it easier — and cheaper — to reach gas wedged between prehistoric rock thousands of feet below the surface.

Critics say chemicals and water pumped underground can leach into groundwater. Buckeye and Forestar, according to the state's geologist, don't have any near-term plans to frack. Long-term is a different matter and would require permission from the state.

Environmental groups, including the Southern Environmental Law Center (SELC), were unaware of the renewed interest in northwest Georgia's natural gas field. The SELC is challenging new fracking rules in Tennessee and proposals to drill on public land in Alabama.

By the summer of 2008, a record 1,600 natural gas rigs had been planted from Oklahoma to Pennsylvania. Prices peaked at \$12 per thousand cubic feet. The industry was running and gunning and carving out new plays, including in Alabama on the western leg of the Conasauga shale field. Major producers invested tens of millions of dollars, drilled 18 productive wells, compressed the gas and put it in a pipeline. They sucked 187 million cubic feet of gas from the ground, according to the Alabama oil and gas board.

By 2010, gas prices had fallen to \$4.27 per thousand cubic feet. The Alabama wells were capped.

"They found gas in the shale, but, bottom line, there just wasn't any way to get enough of it released to be economical," said Dave Bolin, deputy director of the Alabama oil and gas board.

Nationwide, only about 425 wells were producing late last year, according to Baker Hughes Inc., an oilfield services company in Houston, the lowest count since 1999. In Kentucky alone, 400 wells shut down.

Forecasts, though, show gas prices rising as demand increases. Nationwide shale gas production is expected to double by 2035. U.S. natural gas sold for \$3.20 per thousand cubic feet last week, but the Energy Information Administration pegs the price at \$5 by 2015, an economically feasible level for production in most places.

Spalvieri says oil could be an easier, first-step extraction. The state's \$250,000 bounty would prove a nice bonus, too.

"If we make a discovery and drill a good well, it will make us some money," Spalvieri said. "But everyone sits back and says, 'Let's see what you find.' "

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