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PIT's shale gas wells not living up to billing

A revenue stream once highly touted as being a double saving grace that not only helped make Pittsburgh International Airport's (PIT) current $1.4 billion terminal modernization program possible but kept PIT from defaulting on its debt is struggling to live up to its original billing, according to a new analysis by the Allegheny Institute for Public Policy.

Given that production of the first wells fracked in 2014 has fallen continuously since 2018 -- combined with the facts that no new wells have been started since 2015 and eight of the ones drilled that year have been deactivated – "it is reasonable to conclude that the future of natural gas production and gas revenues at PIT is growing dimmer each year," says Frank Gamrat, executive director of the Pittsburgh think tank (in *Policy Brief Vol. 22, No. 40*).

It was in February 2013 that the Allegheny County Airport Authority signed a lease with CNX Gas Company LLC to drill wells into the shale formations at PIT. The lease included bonus payments and royalties for gas produced. The authority said then said it would use the proceeds to lower fees paid by the airlines to use the Findlay Township airport.

"If we had not done the gas royalty deal … we would've defaulted on our [PIT] bonding," county Chief Executive Rich Fitzgerald has told the media more than once over the years. Now, instead of default, it is modernizing the airport and natural gas money will help to finance that effort, he also has repeated.

But, perhaps, not as much help as was originally projected.

The lease included a nonrefundable bonus payment of $45.1 million to be paid to the Airport Authority from 2013 to 2018. After that the lease became year-to-year with royalties being paid as gas is extracted.

It also contains "ground rent payments" for undeveloped acreage. In 2021, royalty revenue was $8.2 million and the ground rent payment was $320,000 for total gas drilling revenues of $8.51 million. In 2020 total revenue was only $5.56 million.

That's a far cry from the $20 million annually touted when the deal was cut.

"Natural gas drilling at [PIT] provided the [Airport Authority] with a substantial upfront payment but has not provided much in terms of royalties as production has trailed off dramatically since the peak in 2018," notes Gamrat, a Ph.D. economist.

And while CNX still has the right to drill more, it is uncertain how much more gas reserves are beneath the property. Considering that no new wells have been drilled in seven years, it's unlikely either party is very optimistic about the economic viability of more wells.

That's even taking into consideration a new agreement between the parties reached this year to drill more wells deeper into the Utica Shale formation. The authority has agreed to have post-production costs taken from its royalties in return for more wells drilled and the potential to continue the royalty revenue stream.

But the current royalty malaise will become more problematic as the Airport Authority needs cash to pay for the ambitious but still quite questionable terminal project.

"With passenger counts not recovering to pre-pandemic levels, operating revenues are not going to cut it alone," Gamrat cautions. "Raising airline charges would be self-defeating and it's also likely another infusion of federal money from pandemic relief will not happen.

"Money from the Build Back Better legislation is more likely."

The bottom line:

"In sum, it looks increasingly likely that PIT's natural gas revenues will not be a major source of revenue over the next 20 to 30 years to service the enormous debt issued to build the new terminal," Gamrat concludes.

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