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## Insight: California environmentalists fear frack fight a distraction

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By Rory Carroll and Braden Reddall

MONTEREY, Calif./BAKERSFIELD, California (Reuters) - As California sets the ground rules for drilling in the Monterey oil formation, a hard-to-reach shale reserve that is the largest in the United States, some environmentalists worry that politicians, regulators and fellow activists are fighting the wrong battle.

The state regulator is hammering out rules for hydraulic fracturing, while the legislature is debating 10 bills on the practice. The drilling technique known as "fracking" has caused so much concern about environmental problems that it is the subject of a Hollywood movie. But most Monterey drillers employ another technique using acid, and only one bill under consideration would regulate that method.

"All this anti-fracking language misses the target and I am very concerned it is a diversion," said Steve Shimek, of environmental group Monterey Coastkeeper.

The Monterey shale holds an estimated 15 billion barrels of oil, more than most estimates for Alaska's Arctic National Wildlife Refuge and twice the reserves of North Dakota's Bakken shale oil deposit, which has transformed that state and moved the country a bit closer to energy independence.

California's focus on fracking, which uses water and chemicals to shatter rock formations and release oil or gas, threatens to divert attention from what some environmentalists are starting to see as the real threat: acid jobs.

It is an old well completion method that involves pumping chemicals such as hydrofluoric acid into wells to melt rocks and other impediments to oil flow, and companies are not required to report when they do it.

"These are super-hazardous, poisonous chemicals and we have no idea what they are doing out there with it - how deep it is going, the volumes - nothing," said Bill Allayaud of the Environmental Working Group. "Why shouldn't our state agency be regulating it as we hope they'll be regulating hydraulic fracturing?"

Occidental Petroleum Corp, which is leading the way on Monterey development, said in 2011 it was mainly using acid jobs to get at the shale, and Occidental said this month that only a sixth of its California wells were fracked.

Venoco, a company well known for running California offshore operations near Santa Barbara and a driller of many onshore wells, estimated a few years ago that more than eight out of 10 Monterey wells could be completed with acid jobs alone.

"A typical completion in the Monterey is acid to clean out the drilling fluid that plugged the fractures," said Mike Kobler, CEO of Underground Energy. He drilled a well in a naturally fractured part of the Monterey before running out of money, and is seeking a partner for his bankrupt company.

Certainly, drillers say fracking is a key tool for "cracking the code" of any shale basin, and the potential has attracted major players such as Aera Energy, a joint venture between Royal Dutch Shell Plc and Exxon Mobil Corp.

"You can complete the well without fracking it, but it changes the economics pretty drastically," said Dan Eberhart, head of wellhead specialist Canary LLC, which bought a Bakersfield company last year to target the Monterey.

As for safety concerns, Eberhart echoed many in the industry by saying that exactly what went into a well mattered less than the integrity of the well.

### RULES TO TAKE MONTHS, MAYBE YEARS

California already ranks fourth among U.S. states for oil output. Oil service operations sprout between orchards in the middle of the state near Bakersfield, and thousands of "nodding donkey" pumps dot the barren, dusty landscape of century-old oilfields near Highway 33, known as the Petroleum Highway.

But these oil resources are different from those in the rest of the country, thanks to the same churning geology that causes earthquakes, and the Monterey itself can vary widely across its vast expanse from Los Angeles to south of San Francisco.



"It's not that we necessarily decided that (fracking) was the most important issue, but we heard from a very concerned public and a very concerned legislature that this is the most important issue," Jason Marshall, chief deputy director for the body which oversees the state's Division of Oil, Gas, and Geothermal Resources, said at a hearing in the city of Monterey.

Fracking regulation will take up to 16 months to write, said State Oil and Gas Supervisor Tim Kustic. Rules on acid jobs could take even longer.

There is little chance of acid migrating from a well site if the well meets strict state construction standards, and there have been no reports of damage caused, even if there is a risk from how chemicals are handled above ground, Kustic said.

Kassie Siegel, an attorney with the Center for Biological Diversity, said it's a "scandal" how little the public knows about the use of acid in the state's oil recovery operations.

"Taking hydrofluoric acid and injecting it into the ground and changing the geology down there is a big concern," she said, especially if the acid was to migrate underground. "We should not have this activity going on until we know those risks."

Oil drillers, meanwhile, think the regulations will work out all right, thanks in part to support from Democratic Governor Jerry Brown.

Brown, considered among the nation's greenest governors for his renewable energy policies, surprised many of his supporters earlier this year when he voiced support for more production from the Monterey.

As long as car-loving Californians are driving gasoline-powered vehicles, it is better to produce crude oil locally than to import it from other states and countries, he said.

But many in the legislature disagree, and talk of fracking bans may only deepen California's reputation for dysfunction.

Underground Energy's Kobler said the Oklahoma company that sold him leases viewed the state as a "cesspool of regulations."

"Have this conversation in Houston and they'll tell you you're crazy to come to California to look for oil," he said.

(Editing by Peter Henderson and Lisa Shumaker)

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