

FRACKING & PHARMACEUTICALS HOW ONE EMPOWERS THE OTHER

June 18, 2019



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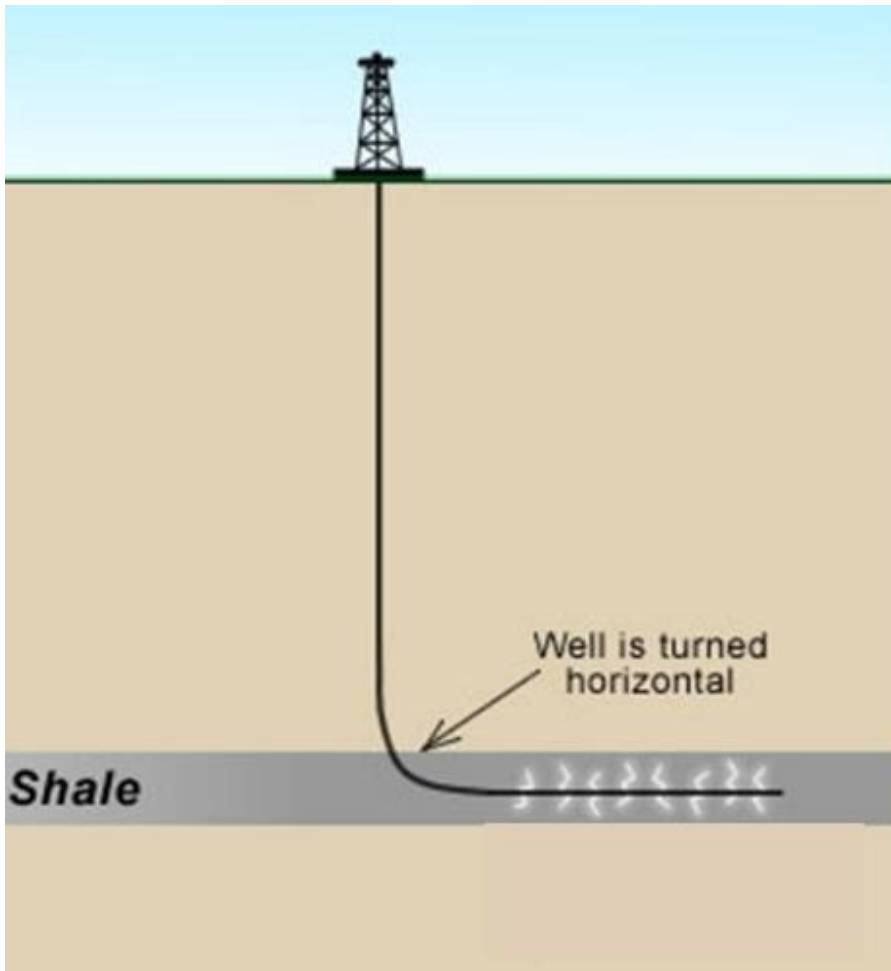
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Presenters:

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- David Rifkind, General Counsel

THE SHALE REVOLUTION



- Since 2004, the combination of hydraulic fracturing and horizontal drilling has unlocked immense quantities of oil and natural gas.

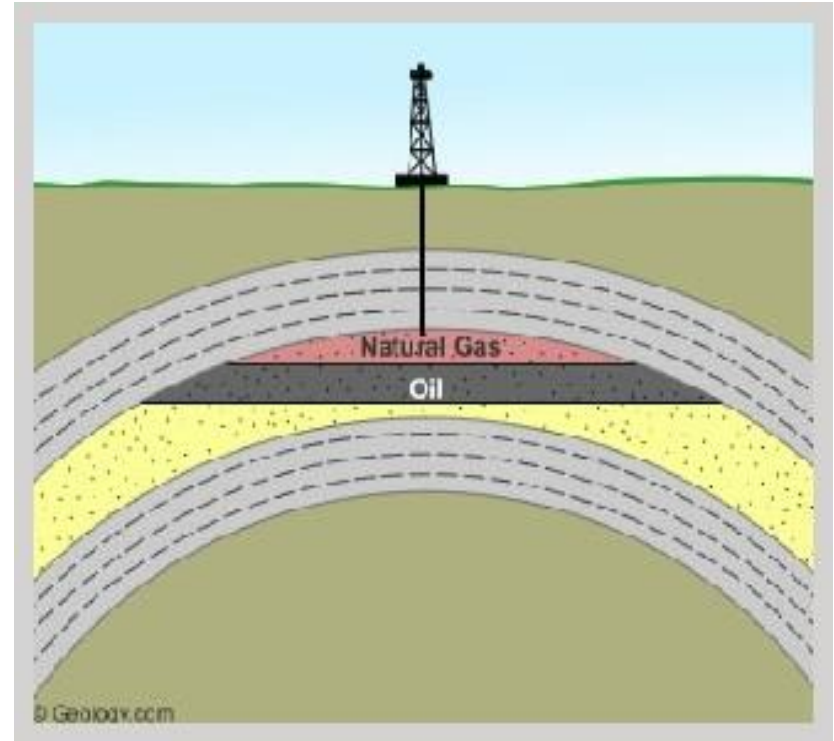
THE MARCELLUS BASIN

- In Pennsylvania, the Marcellus Shale Basin covers much of the state. The Basin is one of the largest in the world, producing approximately 13 billion cubic feet of natural gas and 50,000 barrels of oil per day.



BUILDING BLOCKS FOR PHARMACEUTICALS

- Natural gas comes from a group of carbon-based products that contain methane (commonly used for natural gas heat), butane, propane and ethane.
- Butane, propane and ethane can then be transformed into ethylene, which is the building block for fertilizers and pharmaceuticals.



ETHANE CRACKERS

- In order to separate out the different “anes,” an expensive process called “ethane cracking” is used, in which the atoms literally are cracked to separate and reorganize their molecular structure.
- In general, ethane’s large molecules are broken apart and the hydrogen and carbon atoms are rearranged to produce ethylene.



PENNSYLVANIA INVESTMENT



- Currently, nearly all of the ethane cracker plants are in the Gulf Coast.
- In 2017, Shell committed to constructing a \$6B ethane cracker plant Pottera Township, Beaver County, Pennsylvania.
- When the plant opens in 2021, it will have the capacity to produce annually an estimated 3.2B lbs. of ethylene and 3.5B lbs. of polyethylene.
- It also will be the first large project like this to be built outside the Gulf Coast in 20 years.

TAX CREDITS AND ADVANTAGES

- In order to obtain the project, Pennsylvania agreed to granting Shell a 15 year tax amnesty, plus a \$2.10 credit for every gallon of ethane it purchases from Pennsylvania-based natural gas drillers.
- Over a 25 year window, the credit may be worth \$1.65B, making it the largest tax break in the State's history.



PRE-INVESTMENT DECISIONS AND ISSUES

- In order to commit to such a large project, Shell needed to ensure that it had the necessary supply of raw materials, transportation network and customers for its products before moving forward.
- Over a series of five years, from 2011-2016, Shell negotiated these contracts before giving its final acceptance.

THE SUPPLY PIPELINE

- In 2018, the Pennsylvania Department of Environmental Protection approved a pipeline to provide ethane to the cracker facility.
- The 97 mile pipeline runs from Ohio to Pennsylvania.



ALERT!!

BE AWARE OF POLITICAL CONSIDERATIONS

- For all corporate counsel, the issue of energy pipelines is critical when deciding on building a new facility.
- Over the last five years, Governors in many states are using an environmental certification known as a Section 401 Clean Streams Certification to block the construction of interstate gas pipelines.



POLITICAL CONSIDERATIONS CONT'D

- In some cases, the blockage of these pipelines means that the governors can't fulfill commitments they themselves made to certain projects. An example is in New York, where Governor Andrew Cuomo just blocked the proposed Northeast Supply Enhancement Project.
- In doing so, he made it impossible to complete his promise to assist in the building of a new arena in Elmont, New York for the New York Islanders ice hockey team.

CORPORATE COUNSEL MUST BE AWARE OF ENERGY SOURCE

- It is imperative for all corporate counsel, whenever handling relocation or expansion matters, to be aware of the energy supply chain that services his/her facility.



GEOPOLITICAL & COST ADVANTAGES TO PHARMACEUTICAL INDUSTRY

- For the Delaware Valley, having both the natural gas and the ethane cracker to produce the ethylene in the Marcellus Region is a huge advantage for pharmaceutical manufacturing.



GEOPOLITICAL & COST ADVANTAGES TO PHARMACEUTICAL INDUSTRY CONT'D

- For the Delaware Valley, having both the natural gas and the ethane cracker to produce the ethylene in the Marcellus Region is a huge advantage for pharmaceutical manufacturing.
- First, it insulates us from international issues that might limit the availability of the product.
- Second, it reduces dramatically the transportation costs of obtaining the ethylene and third it reduces the time lag in obtaining the product.

MANUFACTURING: WHAT DO WE WANT TO BE?

- In the end, as a region and among the three states, we have to decide on our business climate.
- Do we want to encourage manufacturing and processing in our region or not?
- As corporate counsel, your input will be important politically as our elected leaders grapple with the policies that will affect all of us.

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