The ENERGY SECTOR SHIFTS GEARS

The Cracker, Utica Shale And The Alternative Energy Bust

First Quarter Commercial And Residential Results

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Once again good fortune shines on the Editorial Calendar here at BreakingGround. Back in September we wrestled with the decision to include another energy-centered edition in the calendar in 2012. Everyone and their brother in media have been rushing to the energy business – not just to shill advertising I’m certain – and we wanted to be a little different. I’m glad I listened to my editorial advisors.

When we first started writing about natural gas three or four years ago the idea of a booming new heavy industry was news in and of itself. Since then, as the industry has developed and Marcellus Shale has been in the press almost daily, there hasn’t actually been all that many big events take place. This winter has been different in that regard. Two big stories have unfolded recently and the timing for revisiting the influence of the energy industry on the business of construction and real estate turned out to be perfect.

The first big deal is the slowdown in activity in the Marcellus Shale because of the depressed price of natural gas. This trend will have less of an impact on the economy in Southwestern PA than it is having in the northeastern corner of the state but lower prices have cooled the ardor of the companies who explore and sell the commodity. It’s a wet gas versus dry gas issue – about which you’ll read more in the feature – and it is our region’s good fortune to be sitting atop the wet variety. Those changing gas dynamics have also meant good fortune for our neighbors to the west in Ohio. There the gas found in the Utica Shale contains oil as well so the energy companies are stepping up their exploration of that formation.

The second big deal was the cracker plant. Of course, what happened in mid-March was technically only the announcement that Shell had selected a preferred site in Beaver County should they decide to build an ethane cracker.

I was by chance moderating a panel discussion for NAIOP’s Developing Leaders with Allegheny Conference CEO Dennis Yablonsky on the evening that the announcement was made. Dennis arrived at Point Park for the panel having come directly from the press conference with Shell’s leaders. He was quick to point out the subtle but significant difference between the announcement of a preferred site and an actual site selection, and took pains to tell the group that the Conference and PRA still viewed the cracker as an opportunity they were working to make a win in the future. After that disclaimer, Dennis went on to talk about some of the economic activity that would follow the construction of a facility that makes ethylene and polyethylene from ethane. It didn’t sound too terrible.

As I listened to Dennis Yablonsky talk about all the downstream opportunities that might follow the construction of a cracking plant, I was struck by recollections of what Pittsburgh was like when I started working here in 1979. I could picture plants along the Ohio and Mon Rivers and towns like Midland or Monaca or Monongahela bustling again. We Pittsburghers have grown accustomed to hearing about the next big thing that doesn’t pan out (remember Maglev? the vaccine factory?) but this one sounds like it may just be that big of a deal.

I was also struck by the thought that the communities in central PA probably felt the same way about the Marcellus Shale exploration when it first became attractive to the gas companies. After a couple of years of prosperity it took only slumping gas prices to cool off the economy of that part of the state. As the industry hasn’t pulled up stakes for good but it must feel like déjà vu for many of the business people there.

It seems like the odds are very good that Shell will build their cracker plant (if I was Ali I might refer to it as the crack-ah in Monaca) and then a lot of plants will build here to be near that source of raw materials. The region may indeed look like a miniature version of Houston by 2020, but there are still plenty of variables that could leave us in the same situation that Lock Haven or Williamsport are in now. We found out thirty years ago that prosperity is not eternal or guaranteed. Pittsburgh will probably be one of the energy centers of the world soon but let’s enjoy the good fortune we’ve got right now.

Jeff Burd

Publisher’s Note

BreakingGround is a magazine focused on construction in southwestern Pennsylvania so there won’t be much in the following articles about what’s going on in central and northern Pennsylvania but I’ve certainly been giving it some thought.

Clinton County is where I spent my formative years. Like southwestern PA, that neck of the woods saw a dramatic negative economic shift in the early 1980’s. The leaders in Clinton County have been trying to find a replacement for the industries that closed or moved out, like Piper Aircraft in my hometown of Lock Haven. When the gas industry landed in their back yard a few years ago it brought the good fortune that had eluded towns like Lock Haven and Wellsboro and Williamsport and Scranton for many years. Now that it’s not as profitable to drill for methane alone the gas companies have moved most of their assets out of the northeastern quadrant of the state in favor of the southwestern quadrant. The industry hasn’t pulled up stakes for good but it must feel like déjà vu for many of the business people there.

Southwestern PA probably felt the same way about the Marcellus Shale exploration when it first became attractive to the gas companies. After a couple of years of prosperity it took only slumping gas prices to cool off the economy of that part of the state. As the industry hasn’t pulled up stakes for good but it must feel like déjà vu for many of the business people there.

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Jeff Burd

Publisher’s Note
REGIONAL UPDATE

Construction activity got off to an unusual start in the first quarter of 2012. Like many parts of the country, Western PA experienced a warmer winter than normal and contractors were able to take advantage of the better conditions — the better soil conditions in particular — to gain on progress schedules. At the same time, heightened activity in the fourth quarter of 2011 may have created an abnormal lull in January as architects and engineers who were busy in November needed time to complete documents for the next round of projects. A third significant difference in winter 2012 was also the dramatic slowdown in publicly-funded projects, especially K-12 and higher education projects that normally bid to prepare for construction start at the end of school year.

On balance however, the results from the first quarter were actually pretty much in line with expectations, maybe because there were counterbalancing factors effecting activity.

Improving regional economic conditions coupled with continued price appreciation are providing stability for the housing market in Pittsburgh, but larger trends of tighter mortgage conditions, declining lot development and lingering uncertainty are still holding back a resurgence of new construction. During the January through March period, 408 permits were issued for single-family detached units, down 17.6 percent from the same period last year. Permits for attached units and apartments more than doubled however, with 396 units started compared to 178 during the first quarter of 2010. The overall housing construction volume was 804 units, an increase in total permits of 19.5 percent.

Permits for single-family detached homes spiked steeply during January of 2011 in metropolitan Pittsburgh because of a carryover from the short-lived sprinkler mandate and the artificial increase is one of the reasons for a decline in single-family permits in 2012. The overall housing numbers are indicating that the housing market, while slow, is getting a firmer footing in the first quarter of 2012.

South Side real estate research firm RealSTATS reported that metro Pittsburgh saw a 7.3 percent increase in the number of homes sold for the first three months of 2012. According to RealSTATS, 4,756 homes were sold, up from 4,432 in the first quarter of 2011. The value of the sales rose from $658 million to $698 million, a 6 percent increase in sales value. The rise in value continues the trend, which saw increases of 5.7 percent in the third quarter and 8.7 percent in the fourth quarter of 2011. The average home price sold also rose 1.2 percent to $148,498.

All in all, the housing market conditions through three months affirmed the forecast of modest improvement in single-family dwellings. With the growing pipeline of multi-family projects, the total number of units started in 2012 is on track for a dramatic increase but only in the rental market.

Perhaps owing to the higher than normal activity during the fourth quarter, many in the non-residential side of the industry were hopeful of a robust start to the year but were disappointed when a slowdown in opportunities dragged on through February and into March. Judging by the total results from the first quarter however, it appears that the non-residential sector is getting into swing as spring unfolds.

Contracting volume did fall 9.6 percent compared to the first quarter of 2011 in the non-residential building sector. Contracting during January to March was $458.7 million, down from $507.6 million in 2011. More than 70 percent of that volume was started or put under contract to start during the last five weeks of the quarter, a sign of encouragement that the slowdown was temporary. While contract value was off, the number of projects started was up slightly and the trend towards more privately-funded construction was magnified during the first quarter. Moreover, using historical analysis of first quarter share the volume thus far in 2012 predicts a year-end volume of three billion dollars.

### Top areas for new home construction during the first quarter.

Source: Pittsburgh Homebuilding Report.
A more detailed analysis of the projects that started in the first quarter reinforces the opinion that market fundamentals for non-residential construction are sounder in 2012 than in the previous few years.

Within the commercial segment of the market, office and industrial properties remained in high demand, with supply lagging demand in a number of sub-markets. Another strong segment was retail construction. Work got underway on the new Dick’s Sporting Goods store in Cranberry Crossroads. That store, along with construction of a Dick’s and Target in South Hills Village and the new JC Penney’s in Monroeville Mall marked a mini-surge in big retail stores but the volume since January has been mostly in mall and strip center infill stores. Having strength in all these commercial sectors suggests improving employment conditions and an improved consumer spending environment – or at least the perception of improved shopping.

The start of more commercial construction projects is only an indicator of improved employment and consumer conditions. The Bureau of Labor’s data on the unemployment in the region is a more quantitative measure and through March the rate had fallen again to 6.7 percent, well below the national rate of 8.2 percent. Within the metropolitan area the rate for Allegheny County had fallen to 6.4 percent, with Butler only slightly behind at 6.5 percent.

What has been beneficial about the announcement – aside from the continued good vibe about the region – is that it reassures the petrochemical industry that this part of the country will be a primary center for the natural gas business and is meriting investment from the largest global players. Royal Dutch Shell is regarded as a gold standard in the industry. Its investment announcement has a similar impact to a stock purchase by Warren Buffet. Shell’s announcement that it was searching for a site last fall had the effect of chasing off smaller players who may have been looking at locating a cracker in the region. By giving the Monaca site preference, Shell also reaffirms that the gas production in the Marcellus and Utica shale formations is sufficient to support the kinds of downstream industries that regional businesses have hoped would follow.

Construction of plastics, chemicals and fertilizer manufacturing plants remains a future opportunity. The importance of the Shell decision – assuming that a decision to proceed follows – is that the greatest benefits of the extraction of natural gas from beneath this region will remain within the region rather than at the end of pipelines thousands of miles away.

For the most part, the supply and demand dynamics were unchanged thus far in 2012 from those of 2011, except that vacancy rates declined further. What appears to be the difference for 2012 is the continued improvement in financing conditions. The heightened competition that was observed in the latter months of 2011 has continued into this year and along with low rates seems to be assuring that more projects will see reasonable financing approved for projects going forward.

Looking into the second quarter, expect better market conditions for commercial projects, especially since there should be the start of work on at least two of the large apartment projects in the pipeline. Heading into the second half of the year the market should get a boost from the accelerated schedules of several major projects – The Tower at PNC, UPMC’s Center for Innovative Science, the Nano-Bio-Energy Center at CMU – that are on tap for construction before fall. It would be an omission to analyze the construction market in the first quarter of 2012 without a mention of Royal Dutch Shell’s announcement of the Horseheads Corp. Monaca plant as its preferred site for a new ethane cracker but as it impacts the coming year’s construction the announcement is a non-event. First, bear in mind that the announcement precedes a formal decision to proceed by Shell, one that is likely but not assured. And second, even with an accelerated decision-making and permitting pace, construction won’t occur until 2014 or later. Most political, economic and industry leaders are confident that Shell will be pumping out ethylene in Potter Township by the end of the decade but no direct economic benefits will be felt during the next couple construction seasons.

Demolition is preparing the site for the Tower at PNC, to be under construction by summer.
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NATIONAL MARKET UPDATE

For a nation still dealing with the hangover of a serious recession, the economic data for the first quarter of 2012 offers both some relief – continued employment gains and low inflation – and consternation – GDP growth that isn’t outpacing population growth and construction increases that are matching the inflation rate. Even the most positive news – signs of a housing recovery – carry a warning.

Ken Rosen of Rosen Consulting in Berkeley referred to his forecast for 2012 at the Urban Land Institute’s (ULI) Real Estate Consensus forecast on March 28 as the “yes, but” forecast. Rosen is generally optimistic that the fundamentals of the real estate market have created conditions for growth in both residential and commercial construction but is not sufficiently bullish on the market to ignore the many reasons for his optimism to fade.

“It could be Europe, the Straits of Hormuz, the future of healthcare or election politics,” he says. “We see the median forecast coming from inertia rather than from growth.”

In fact, most forecasters have seen little in quarter one to alter what are on the whole very tepid predictions of increased activity. Supply and demand fundamentals remain weak to neutral in most metropolitan markets around the country. Some regional recovery is tangible in Texas, northern California, North Dakota, Pittsburgh, New York City and Washington D. C. but an overhang of vacant properties still haunts many U. S. metropolitan areas.

With limited job creation the demand for offices and industrial properties is still weak. Retail property vacancy rates remain high, although an April 10 report by Reis Inc. showed a decline in vacancies for strip malls for the first time in seven years. Among the commercial categories, only multi-family is experiencing any strength. According to CBRE Econometric Advisors the vacancy rate for apartments fell again to 5.1 percent in the first quarter. The same report showed slight improvement in industrial vacancy to 13.4 percent while office and retail vacancy remained at 16 percent and 13.1 percent respectively.

The office and retail occupancy levels are being helped as much by the lack of new construction as by a significant increase in consumer confidence or spending. There is little in the short-term forecast to foretell any improvement in these categories.

“We’re looking for a bit leaner GDP growth for 2012, probably around two percent, and then getting above three percent in 2013,” predicts Serena Tse, senior vice president and senior research analyst at GE Capital. Tse sees the longer term forecast for gross domestic product growth remaining in the three percent range through 2015. She was more upbeat about corporate profits, which Tse predicts will rise to seven percent this year – a good precursor for construction and for manufacturing, which Tse says is remaining steady at four percent.

Manufacturing facilities rebounded in 2010 and into 2011 but the volume of construction had been declining for about a year. Owing to better conditions on several fronts that sector has been strengthening over the past quarter. A marked improvement in automobile and truck sales has pushed several big construction projects by manufacturers and a need for more capacity in the automotive supply chain. Another development that is boosting planning for more manufacturing is the growing supply of natural gas at record low prices. Gas exploration in the shale formations has been the trigger for chemical makers to move ahead with capital expenditures, with nearly 30 chemical plants proposed in the U. S. during the next five years. Several fertilizer manufacturers are expanding or opening new facilities. And steel maker Nucor is building a $750 million plant in Louisiana that will use natural gas instead of coke in the iron-to-steel process.

“I expect to see manufacturing approach the levels of late 2008 or early 2009, maybe getting into record levels again next year,” says Ken Simonson, chief economist for the Associated General Contractors of America. “It’s not just oil and gas from the shale plays. There is strength in autos, tires, refining and processing. Intel is spending $5 billion on a new plant, for example.”

One sector of the market that has seen robust growth in activity is housing construction, however even the news of increased construction is tempered with a “yes, but.” An unusually warm winter gave builders a chance to start projects that would not have started a year ago. According to the Census Bureau, starts have increased by 16.3 percent year-over-year and even though multi-family construction has been growing briskly, apartments make up a small enough share of the total housing market that a healthy portion of the
increased activity is coming from single-family homes. But because of the weather anomaly, economists aren’t ready to declare the start of a new housing boom.

“Housing starts up 16 percent is a very strong indicator but there is caution about the effect of the good weather during slow months,” remarked Serena Tse. “We’ll need to see the results of the second quarter to see if the starts balance out or if it keeps pace.”

The economic observers at ULI’s Consensus Forecast also addressed the housing market and voiced concerns about both the supply and demand dynamics and some of the structural issues holding back new home construction.

Peter Linneman, CEO of American Land Fund spoke of the impact of the mortgage crisis on the ability to observe the U. S. housing market. “We stopped having a national housing market about a year ago,” he explained. “Since then we have seen many markets rising while many markets continue to fall.” Linneman wasn’t ready to forecast a timetable for a return to a normal housing market but he pointed out that supply of new construction was setting the stage for recovery.

“Over the last decade the industry actually under-produced compared to historical norms,” he says. “What was overbuilt during the bubble is now less than what has been underbuilt over the past few years.”

Ken Rosen voiced concern about the outlook for interest rates and the recovery of housing. “Right now the 10-year Treasury bill is three percent but our forecast for 2014 is for much higher rates. Even if buyers are out looking then, the same house will be less affordable than if they bought it today.”

ULI’s economists also weighed in on another potential drag on the housing market in future: government sponsored enterprises (GSE) Fannie Mae and Freddie Mac.

“No one seems to have the political stomach to restructure the GSE’s,” says Linneman. “This was ground zero for the mortgage crisis but five years later nothing has changed so I’ve got to believe nothing will change.”

David Lynn, of Clarion Partners is less uncertain about actions that will be taken that will dramatically effect Fannie and Freddie’s operation. “There’s no question that after the election there will be changes in the tax structure in 2013 or 2014 that will make it very difficult for the GSE’s to take the kinds of risks that they have,” he says. Lynn believes that it is likely that the mortgage deduction will be eliminated or reduced, removing a significant motivation for home buying. Such a change would greatly reduce buyers who marginally qualify and need the mortgage deduction to justify the purchase. At the same time he doesn’t seem to see a dismantling or radical restructuring of the two home finance giants.

“The GSE’s are like Apple Pie,” he says. “They are the underpinning of the mortgage market.”

Although data on housing starts – especially apartments – and on housing sales prices continues to improve slightly, there are headwinds that will keep any recovery in homebuilding muted in 2012. The February settlement between states attorney’s general and five major banks allocates a majority of the $25 billion agreement be used to reduce the principal amount owed by homeowners in danger of foreclosure but it also

Billings and inquiries at architectural offices remain positive but stagnant during the past quarter. Source American Institute of Architects.

EVEN THE MOST OPTIMISTIC SCENARIOS FOR HOUSING CONSTRUCTION IN 2012 FORECAST THE TOTAL NEW UNITS FOR THE YEAR TO REACH ONE MILLION UNITS OR LESS ...
allows those banks to re-engage their foreclosure efforts. Many of the nation’s largest mortgage banks had slowed or frozen foreclosures since fall 2010, when the “robo signing” issue came to light. Estimates of the impact of normalized foreclosures run as high as two million new foreclosures entering the market during the next twelve months, starting with a spike in activity in late spring, which is typically the busiest time for residential real estate sales.

Even the most optimistic scenarios for housing construction in 2012 forecast the total new units for the year to reach one million units or less and those require an employment pickup much more robust than has materialized thus far. With home values still in danger of further decline due to overhanging supply it’s more likely that housing starts will only improve to the 700,000 to 750,000 level. That is a significant gain on a percentage basis but still about half the rate of household formations.

A leading indicator of construction, AIA’s Architectural Billing Index was positive in March for the fifth consecutive month, according to the association’s April 18th report.

On the non-residential construction side of the industry the first quarter’s results show mixed improvement. Reed Construction Data reported on April 12 that starts had increased 3.7 percent in January through March compared to 2011. Their data showed a wide disparity in activity by type of property. Commercial and institutional building starts improved by 39 percent and 13 percent respectively. Industrial starts were off 48 percent, although that decline was a reflection of unusual activity in 2011 rather than a steep decline from the moving average for industrial. Reed’s reporting of an 18 percent decline in heavy engineering work is probably indicative of even worse market conditions, since warm weather allowed for more civil construction and costs for heavy engineering work are up over last year.

McGraw-Hill Construction reported its data for construction activity during the first quarter of 2012 on April 20 and like Reed saw relatively little change, although McGraw-Hill showed a decline of three percent year-over-year to an unadjusted volume of $94.2 billion for all types of construction. Their data varied widely for activity in the major categories however, perhaps owing to variations in the timing of the reporting. Non-residential contracting was down 25 percent and public works construction – which roughly equates to Reed’s heavy engineering category – was down 16 percent. The decline in engineering work is indicative, of course of the funding crisis facing state and federal governments. With few prospects for increased spending on infrastructure at any level – the federal transportation bill will likely be extended rather than resolved and states have to use improving tax receipts for deficit reduction – construction of publicly-funded projects will be off by at least 15 percent for the year. That millstone will drag the overall construction market back to increases under five percent, regardless of incremental improvements in the non-residential sector.
WHAT’S IT COST?

The trend of stable building material and product pricing continued in March, according to the Bureau of Labor Statistics announcement on April 13. Both the broader Consumer Price Index (CPI) and Producer Price Index (PPI) showed small increases for March over February and nearly identical year-over-year inflation. CPI has climbed 2.7 percent compared to March 2011, while PPI was 2.8 percent higher. PPI for construction inputs – a weighted average of the cost of all materials used in construction, plus items consumed by contractors – was 1.4 percent higher for March and 3.8 percent for 12 months.

Although the PPI for construction was one-third higher than for finished goods, construction inflation in the first quarter has moderated considerably and is now trending very closely with overall inflation. Because construction materials and products have global demand and are heavily dependent upon freight costs, inflation for those goods has run about twice the CPI since the recession. With the cooling of China’s growth and the recession in the Eurozone, supplies have remained ahead of demand since fall.

Most of the materials that saw significant price increases since the fourth quarter of 2011 have experienced retraction of prices to last spring’s levels. One notable exception is gypsum board, for which manufacturers have attempted to press increases of more than 20 percent this year. Drywall prices increased 2.2 percent in March, after jumps of 5.1 percent in February and 5.9 percent in January. This trend has brought the year-over-year increase down to 9.1 percent, a figure that is likely to continue to fall.

“Without demand increases in office construction, schools and especially single-family housing the [gypsum board] price increases just won’t stick,” predicts Kenneth Simonson, AGC’s chief economist. Simonson forecasts that there will continue to be monthly volatility in certain items but that inflation in December 2012 will be five or six percent compared to the previous December. He also believes that the price of gasoline and diesel has peaked and will decline to levels that are under ten percent inflation by the end of 2012.

Simonson is not alone in forecasting that current fuel prices are at their top. Much of the run up since January has been driven by fear of disruption in supply from Iran and speculation about China’s needs. With Iran agreeing to negotiations about its nuclear program, continued worries about the U. S. economy and China’s lower growth estimates, the pricing premiums being applied to oil – which makes up about 70 percent of the price of gasoline – are being discounted and prices are falling back to fundamentals of supply and demand. Those fundamentals indicate lower prices.

As demand has flattened and perceptions of future demand with it, several factors have ensured that oil supply will be adequate or in surplus into the summer.

Saudi Arabia had guaranteed to produce enough oil to offset any Iranian disruption before the threat abated. That assurance remains as a buffer against tensions boiling over in the near term. On April 12 the Energy Information Administration (EIA) reported that a significant number of producers from Canada, Sudan and the North Sea that had been offline would return to the supply chain in mid-year, bringing an additional 1.1 million barrels per day into inventories. EIA also reported that an additional 700,000 barrels would be produced per day from other non-OPEC countries. And OPEC is producing at levels that are four-year highs.

With the additional supply in the market, prices for diesel and gasoline will have no fundamental support for further inflation, particularly since heavy construction demand is only expected to grow marginally this summer. There will probably be some small increase when the diesel refiners switch to the richer and pricier formulas later this spring but prices have topped out at $4.25 per gallon and should be falling back towards the $3.75 levels again by fall. ☛
THE ENERGY SECTOR SHIFTS GEARS
Marcellus Shale. Five years ago only a small group of people in the energy business understood what an impact those two words could have on the economic future of the nation and the Appalachian region in particular. In spring of 2007, oil prices were hovering between $60 and $65 per barrel, but the trend was beginning a shift upward towards a price that would ultimately peak at $144. From that peak in July 2008, an entire industry began a feverish search for a way to find energy resources other than oil. As part of that search, the natural gas industry mobilized resources to use a new drilling technology to explore a vast shale-borne source of gas. From that point on, Western PA became increasingly familiar with what Marcellus Shale is.

The Horseheads Corp. zinc plant site in Potter Township in Beaver County. (From Google Maps)
Gas is, of course only the second plentiful natural resource indigenous to the southwestern PA area. Many livelihoods still depend on the coal industry, which has large markets for industrial applications and power generation (coal still has the largest share as a fuel source for power plants). And as the shale gas industry has taken hold the local economic development agencies have been working to leverage Pittsburgh’s assets and experience to promote the region’s overall energy business.

One of those is the Energy Alliance of Greater Pittsburgh, an initiative of the Allegheny Conference and Innovation Works. The Energy Alliance’s aim is to raise awareness and help create jobs across a broad band of energy industries with strength in our region. Ken Zapinski is a senior vice president at the Conference and the point man for the Energy Alliance. He explains that the emphasis on a portfolio approach comes from the strength of many of the existing industry sectors.

“If you take everything else that is not shale gas, the total size is bigger than the shale play alone,” he says. “Our focus is on increasing jobs and investment in Greater Pittsburgh in seven industry sectors – coal, natural gas, nuclear, solar, wind, transmission and distribution and intelligent buildings.”

Zapinski says that the expertise and experience of Pittsburgh companies in green building, intelligent grid, and manufacturing of the components that support energy generation and distribution are vital assets, as valuable to the regional economy as the natural resources are. The Energy Alliance looks to leverage both those resources and the regional intelligence as the people around the globe must solve difficult energy problems for years to come.

Of course energy isn’t really a monolithic industry. If there is any truth to the perception that Pittsburgh is becoming a new center where a number of energy-related businesses have clustered, there will be synergies that evolve to create efficiency between

Even as alternative fuel sources have emerged over the past decade, coal is still the dominant fuel source for power plants in the U.S.
those businesses where there are intersections. That sort of future will require new kinds of infrastructure and support that state and local governments have not been accustomed to providing. An energy-centered economy will require embracing new realities, not all of which the citizens of Western PA are prepared for.

THE OLD ENERGY SECTOR IS SO 2009

One of the realities of the energy sector is that it is increasingly dynamic. Over the past couple of decades industry players have grown to accept that their business will not be static for very long. Western Pennsylvanians would do well to begin to understand that same reality. Just as the citizens and government officials of this region are beginning to understand what the various energy businesses are all about, the landscape is again shifting dramatically.

Some of the changes are being driven by how innovation naturally proceeds. High fuel prices sparked all sorts of alternative energy sources. Within a few years some of those – corn-to-ethanol for example – proved to be impractical or a source of other problems.

The most significant and recent changes have been driven by the forces of the market. One of the things that made shale gas so attractive – its yield – has also become a drag on the industry, as increased production has led to an oversupply and steep decline in the price of the commodity. For consumers that has been a blessing but for natural gas suppliers the historically low prices have created a serious challenge. Energy companies have a solid history of adapting swiftly to unexpected changes in supply and demand and their reaction to the current low commodity price has been no exception.

Another winner in the race to find an alternative to oil has been the nuclear power industry. After a generation-long drought
brought on by the accidents at Three Mile Island and Chernobyl, the nuclear generation business was able to apply safer and improved reactor technology to reignite their industry in the last decade. Billed as a clean and renewable alternative to fossil fuels, nuclear reactors were becoming the energy source of choice in many parts of the globe, in particular in the emerging economies in China and India.

One of the prime beneficiaries of this surge in demand for nuclear energy was Westinghouse Electric. Their prosperity was also a regional prosperity, as the company decided to build a million square foot headquarters in Cranberry Township and added 3,000 great jobs. An earthquake in Japan in March 2011 interrupted the arc of the industry’s growth, however, and the nuclear power industry has been adapting to the altered perception and realities of their energy source since then.

Alternative energy sources were the darlings of the market just a few years ago, as everything from wind to solar to vegetables to used French fry grease was going to be the answer to our dependence on oil. Too many businesses trying too many alternatives – helped along by a large dose of government largesse – created a bust that will have to be endured before renewable sources can be tested again.

Of all the shifts that the energy industry is undergoing as summer 2012 approaches, the response to the low natural gas price has the most potential to impact the regional economy of Western PA. As a plentiful and economically viable alternative to crude oil and its refinements, natural gas is the one energy resource that can be substituted for oil with the least effort. And more importantly, increased applications of natural gas where oil is currently used for fuel will hike demand and the price of gas. It is, therefore, in the mutual interest of the consumer and the gas industry to see more uses of natural gas in place of oil sooner rather than later.

One measure of just how out of line the price of oil and gas has become is the oil-to-gas price ratio. The two commodities have historically maintained a price relationship where oil is between five and ten times the cost of natural gas, typically staying around seven or eight times as expensive. The ratio climbed to around 20 times during the early stages of the 2007-2009 recession, but because of the proliferation of shale gas exploration, the oil-to-gas ratio has spiked as the recovery has gained strength, topping 50 in early April 2012. A ratio that out of balance acts as a strong incentive for private industry and even government to increase their efforts to find ways to burn natural gas in place of oil. And those efforts are bearing fruit already.

In an address to the local Construction Financial Managers Association on April 4, Gov. Corbett addressed several of his initiatives to create more demand for the gas being extracted from underneath his state. One of the most obvious options on the table is the conversion of the state’s vehicle fleet to liquid propane. The governor didn’t promise a wholesale conversion or a program to build an infrastructure of LP stations across Pennsylvania but he...
did share that the state had decided to select propane-fueled Ford and GM vehicles for its new purchases of pickup trucks.

On a more local level, Allegheny County is also exploring LP alternative vehicles. County Executive Rich Fitzgerald was given a natural gas car to use for a week this past winter. He says that it operated with the same performance as his regular vehicle, except that he found filling up at EQT’s LP station on Smallman Street to be a much quicker and more satisfying experience, especially with the fuel costing the equivalent of about $1.80 per gallon.

These types of alternative selections have the kind of incremental impact on demand that isn’t noticeable on the surface but can make huge differences in the aggregate. As spring 2012 blooms, an oversupply without looming demand is pushing the gas industry in a different direction.

SHIFTING TO LIQUIDS

For almost six months, the gas industry has been picking up assets located in the central and northeastern portions of the state and moving them west. The reason is that the pricing for natural gas used for heating and fueling purposes, which is derived from methane from so-called ‘dry’ gas has fallen to the point that it is not as economically viable to extract and process unless there are other gases present in the shale formation. In the case of the Marcellus Shale, the gas is missing those other gases in much of Pennsylvania, except in the southwestern corner. Gas fields rich with ‘dry’ gas are becoming dormant until the price rises significantly.

The shale formations that contain propane, ethane and butane can still be explored profitably because of the additional sales
that can be made after fractionation and processing. The prices of these liquids tend to follow the price of oil rather than natural gas and thus far prices are holding at higher levels. According to Rex Energy’s annual report, the wet gases that it is getting from wells in Western Pennsylvania add about 40 percent value to its natural gas production. Rex is an active player in Butler County Marcellus exploration and in the Utica/Point Pleasant exploration in Ohio and Western PA. Exploration of the Marcellus taking place south of Pittsburgh is continuing because of those wet gases, although not at the same pace of growth as in 2009 or 2010.

Even better for the gas companies are the shale formations that contain oil in addition to the gases. While gas prices have fallen to below two dollars per million Btu, oil prices are holding in the neighbor-

hood of $100 per barrel. So the Utica Shale, for instance, is now a more desirable formation because it contains all three resources and is relatively easy to explore, especially in Ohio. That means that eastern Ohio is becoming the new Canonsburg, so to speak.

Chesapeake Energy was an early explorer of the Marcellus formation but has now shifted its attention to Ohio. In addition to its partnership in the development of a $900 million complex in Harrison and Columbiana Counties in Ohio, the firm is also boosting its rig count from eight to an estimated 20 rigs as 2012 progresses. The company’s early drilling in the Utica formation was reported as part of their February 22 earnings report. Chesapeake CEO, Aubrey McLendon said that the two wells drilled in Carroll County, OH had produced promising results, with roughly 700 barrels of oil daily along with three million cubic feet of wet gas. That compares quite favorably to a typical gas well in Ohio that produces one barrel of oil and 50,000 cubic feet of gas. Like others, Chesapeake hasn’t lost its interest in the Marcellus Shale but it has changed its timeline.

Chesapeake is to date the largest landowner in Ohio among the energy companies, with 1.35 million acres under lease. They have also drilled 56 wells to date. According to studies done by Ohio State University and Marietta College, there are about 3.8 million acres under lease or acquisition agreement in Ohio. Among the roster of names lining up land for drilling are many of the same companies who are or have been exploring the Marcellus formation: Anadarko Petroleum, Devon Energy, Hess Energy, XTO Energy/ExxonMobil, Chevron, CNX Gas, Range Resources and Antero Resources.

The busiest counties for leasing and acquisition have been Carroll, Belmont, Jefferson, Noble, Guernsey, Monroe and Washington. Like the early stages of the Marcellus play, drilling activity has been tentative at first in the Utica formation – only 160 wells are projected for 2012 – but estimates are for another 650 wells in 2013 and 1,075 wells in 2014.

Because of the proximity to the Marcellus Shale formation, the gas extracted from Utica Shale formation is not far from the collection and processing facilities that have been developed in southwestern PA. The largest of those facilities is the $500 million plus Houston plant developed by MarkWest. During the past three years as that plant was started and expanded, MarkWest was also building out distribution infrastructure, including a terminal at Majorsville on the Ohio River. It turns out, shale formations don’t follow state borders and neither do the developers of midstream facilities. With the experiences of developing compressing stations, plants and pipelines in Pennsylvania under their
belts, you can expect MarkWest, Keystone and companies like them to move quickly to build the capacity to get the wet gas and oil to market.

WHAT HAPPENED TO ALTERNATIVE?

When the price of oil and natural gas both spiked in the summer of 2008 – taking electricity costs with them – the mainstream of business was beginning to embrace the concept of sustainable living and green building. That kind of harmonic convergence of a good idea and market need happens infrequently, and the players moved in to take advantage of the opportunities. The market response was enthusiastic enough but then government got involved and the resultant boom that followed could be an object lesson in why governments should not offer incentives to shift free markets.

The initial response to the energy crisis was a rush to get any and every type of alternative energy source to the market. You may remember the plan to convert the former Sony plant to a corn-to-ethanol plant, or the federal push to make fuel from switch grass. The poster child for this push was the ill-fated $270 million Bionol Ethanol plant in Clearfield. The project received $27 million in state grants and loans plus $67 million in tax-free bonds and was essentially dead on arrival. Bionol opened in December 2009 and shut its doors in July 2011.
Compounding this market intrusion by government were tax incentives and then later, in response to the recession, the infusion of ARRA funds. During the last years of the Rendell administration, roughly $500 million was made available to developers who could create alternative energy. By that time that meant essentially two technologies in Pennsylvania: wind and solar. The incentives were justification alone to build solar projects and wind turbines, but alternatives got a further boost because generating electricity also meant generating Renewable Energy Credits (REC). The credits – SREC’s in the case of solar – could be purchased by utilities or manufacturers to offset their own consumption of fossil fuels. At the height of the buildup in November 2010, during the construction boom, SREC’s were selling for $325 per credit. Then the bubble popped.

“The industry rushed into Pennsylvania and developed a lot more solar than the utilities needed to meet their state mandate,” explains Thomas Peters, executive vice president of Scalo Solar. “Then in November 2010 the utility companies said ‘no more, we’re full’ and the value of SREC’s has dropped ever since.”

Peters points out that part of the problem is that when Pennsylvania adopted its alternative energy standards in 2004, the Public Utility Commission was handed the task of implementing the new standards and got off on the wrong foot. Rather than taking an aggressive stance the PUC set up a phasing plan that imposed very low requirements for utility companies to work in a share of renewable or alternative generation into their mix. That alternative share is low enough that utility companies won’t have to look at adding renewable assets or buying REC’s again until the middle of the decade, even though almost no wind or solar generation has been added since 2011. Without demand and with an overbuilt supply the price of SREC’s has plummeted, closing at $10 per credit on April 20. The market for wind REC’s is even worse, trading at around a buck per credit.

Another regulatory decision will probably help to keep REC prices low even after the market bounces back. As a punitive measure the PUC also created Alternative Compliance Payments for utilities who fail to meet the alternative energy portfolio standards, but the formula for determining those payments is a complex calculation that essentially relies on the prices from the immediate past years. That means that during the recovery the price of REC’s will be determined by a historically low alternative energy compliance payment.

REC’s also play an important role in creating private demand for alternative energy. For solar arrays, the SREC’s add to the energy savings to allow building owners to get a return on investment that pays back in five years, which Tom Peters says is the typical payback period a client seeks. To be profitable on a five-year payback the SREC’s need to be at least $250 per credit. At the current SREC price point an average array takes eight or nine years to return the
investment, however, regardless of the SREC value the federal tax incentives still allow for solar to be financially feasible for many businesses in Pennsylvania.

Like an overbuilt real estate market, the solar and wind markets will simply have to wait for the oversupply to be absorbed by the rising requirements for alternative share of the utilities' portfolio.

“In 2014 or 2015 you’ll see everyone run back into the Pennsylvania market,” predicts Peters. “You can develop a one megawatt solar array in about four months so you can build capacity in a hurry. That’s going to happen. We’re going to have boom and bust cycles in solar and wind for a while.”

**NUCLEAR GOES MODULAR**

Perhaps the most unlikely feel good story of the last decade was the almost geometric growth of the nuclear energy industry and with it the growth of Westinghouse. Safety concerns and popular opposition in many Western nations left the industry almost dead for a generation, creating a significant void in the workforce that could serve the industry.

The nations that accepted nuclear energy for its positive attributes – large capacity and clean energy – turned out to be some of the economically healthiest after the recession of the early 2000’s. One of those, China became the fastest-growing economy since post-World War II America. China’s appetite for nuclear power generation literally grew faster than the capacity to engineer and build reactors. Westinghouse was one of the prime beneficiaries of the Chinese demand and they began to grow equally fast, hiring hundreds of engineers and professionals each year. The watershed year for Western PA was 2007, when in the midst of their growth, Westinghouse decided to build a new headquarters campus in Cranberry Woods instead of leaving the region. That decision resulted in roughly 3,000 new jobs being added in metro Pittsburgh and the construction that followed helped take the edge of a nasty recession for the area surrounding Route 228.

Last year’s earthquake and tsunami in Japan chilled the industry but Westinghouse has continued to develop new technology. Its latest innovation is a Small Modular Reactor (SMR) and it is essentially what the name says. What is less obvious than its name is the impact the SMR will have on the generation market.

SMR technology provides capacity of 225 megawatts – sufficient to meet the power needs of a suburb – from a reactor that can be assembled entirely in a factory and delivered on a rail car to the plant site ready to generate. The SMR is designed to operate 100 feet below the surface and an SMR plant will have the physical footprint of a small manufacturing facility. Westinghouse designed the SMR to have fewer components than the AP1000 and to be the safest reactor it has developed. Moreover, because it is manufactured and built as a module, the SMR has much higher quality control conditions and takes as little as one-third the time to put into operation.
In the U. S. the regulatory review period alone can take up to four or five years, with construction an equally lengthy process that can cost upwards of $10 billion. Westinghouse estimates that the SMR can be engineered and built in 18 months for roughly one-tenth the cost. The modular design may also allow for expedited licensing, since regulators will be reviewing replicable engineering.

The SMR is in the final stages of design and regulatory approval. Things have advanced enough that the company has entered into a partnership with St. Louis-based Ameren to build a new reactor at the company’s Calloway Missouri plant. Ameren had struggled for years to license a second conventional reactor at the facility, against much public and regulatory opposition. The Westinghouse/Ameren venture is currently pursuing $452 million in Department of Energy funding to support the engineering and licensing of the reactor.

Plants like Calloway are the primary initial markets for Westinghouse in marketing the SMR technology. The majority of the power plants in the Midwest are coal-fired and in need of major retrofitting and updating.

Observers see the SMR as meeting many of the concerns of nuclear industry opponents. The modular design and construction is cooler, safer and easier to put into working order in a plant. Assuming the experts are correct, the SMR technology can add significant business to Westinghouse and restore confidence in nuclear power in general. To the benefit of Western PA, success for the SMR would mean another leg up from the plateau that Westinghouse finds itself at present.

THE CRACKER

On March 15, Royal Dutch Shell announced that it had chosen the site of the Horseheads Corp. zinc manufacturing facility along Route 18 in Beaver County as their preferred development site for a future ethane cracking facility. Before examining the potential effects on the regional economy, it’s worth noting that the Shell announcement was merely a preview to the announcement that will have the real impact on the region. Politicians in the region are unwaveringly confident that a decision to proceed will follow in due time but the next two years will be a time of environmental analysis, regulatory and permit reviews and at some point a decision to go – or not – from Shell.

Assuming that there is a decision to proceed, the location of a facility to chemically crack ethylene and polyethylene from ethane in Western PA will only be the first domino to fall.

First, most of the discussion about the plant has been about a singular cracker, with little mention of the ultimate intended use for the site (probably because no actual plans exist yet). The Horseheads site is roughly 300 acres. A full-size ethane cracker is
large but can be developed on 50 acres. It’s more likely that the completely built-out facility that will operate in Monaca in the 2020’s or 2030’s will be a petrochemical complex involving the manufacturing and distilling of a full spectrum of Shell’s petroleum and industrial chemical products that can be derived from natural gas.

As has been outlined repeatedly since word of Shell’s search leaked out last year, the ethylene produced at a cracker is the mother feed stock for a whole host of related industries. By building a plant in Beaver County, Shell assures that it will attract customers who will buy the chemicals to make plastics, fertilizer, pharmaceuticals and other industrial chemical products; and those customers will locate their facilities for making the downstream products within the region.

Although Shell’s announcement may have raised the ante in the cracker sweepstakes and pushed some small players to the sidelines, it hardly creates an exclusive situation. Other cracker technologies have already been announced and other manufacturers have indicated interest in locating a second or third cracker in the Tri-state area. Industry veterans point out that the viability of sites in West Virginia and Ohio remains but also that the selection of a site in greater Pittsburgh doesn’t preclude other companies from also choosing the area for additional cracker plants. It’s quite common, they point out, for the petrochemical industry to create clusters of processing operations within close proximity to gain mutual benefits from the location.

The Pittsburgh Regional Alliance is mum on the names and number of companies – not unexpectedly – that may be interested in locations for a cracker within the region; in fact, the PRA still does not count Shell as an official selection. But they do acknowledge getting inquiries from firms that have not been identified by the press.

What creates interest in the southwestern PA sites is an amalgam of many factors beyond the proximity of the natural gas fields. For Shell and the Monaca site, access to rail and water transportation was significant, as was the location so close to the I-376/Beaver Valley Expressway. Equally important to the winning location was access to the natural gas infrastructure. Along the Ohio River, in Aliquippa and Midland for instance, there are industrial sites that are already prepared for use by related industries. And locating in Monaca also meant locating in Pittsburgh, with all the lifestyle and entertainment amenities that meant for future employees.

Dewitt Peart, PRA president, explains that the many advantages of the Monaca site were overlooked in the popular discourse about the relative size of government incentive packages but that those advantages were important to Shell.

“All of the sites being considered had access to water, rail and transportation but at Monaca the ethane pipeline that will carry raw materials to the plant runs right by the site,” he says. “Right across the river is the Mariner line that goes west to Sarnia and east to Philadelphia. The site is also right off an interstate highway. In classic site selection being five miles to an interstate is a critical factor. Here it’s one-quarter mile to I-376.”

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Peart points out that the interstate access will be a necessity to accommodate thousands of construction workers and building materials while the plant is built and that the quarter mile distance will make it easier for Shell to upgrade Frankford Road [Route 18] to handle the heavier vehicle traffic.

Construction of the plant will be an undertaking that is hard to fathom for those in the industry in Western PA. While Shell and industry insiders have thrown around investment numbers of $1.5 billion and higher, the size of the site suggests an even bigger project. As presented at the announcement the project would be the largest individual construction project in southwestern PA since the Shippingport nuclear plant was built in 1957. The ethane cracker will require 10,000 construction workers to complete, a staggering employment number compared to our current regional workforce. The project will also be built by one of a small number of global engineering, procurement and construction (EPC) firms with whom few – if any – regional contractors have working relationships. Landing such a project in the region will be a great coup but the construction, if the project proceeds, will create a significant amount of stress on the regional construction industry.
THE ENERGY REBOUND

Thirty years ago the stars aligned a host of factors – short-sighted management, unsustainable labor agreements, globalization and rising consumerism – to make domestic heavy manufacturing uncompetitive. The resultant shift in assets gutted southwestern PA, costing as many as a hundred thousand jobs and derailing the region’s economy.

As little as five years ago a rebound from those events still wasn’t assured. As a result of a host of new pressures much of the world is looking for new ideas and technologies to solve the problem of inadequate or unsustainable energy resources. Like in the early 1980’s, many Pittsburgh companies have been quietly going about their business in recent years as events beyond their control have suddenly influenced their markets, this time facilitating rapid growth rather than precipitous decline.

Pittsburgh has only been a center for energy-related business for a few years but the new economic base has already faced some seismic shifts. Thus far, the changes in markets and technology have enhanced the economic position of our regional businesses. Pittsburgh’s economy is aligned with energy now. The economic and social rebound being experienced is the result of the world’s need for cleaner, cheaper, more sustainable energy. Energy’s emergence as an economic driver has even resulted in a rebound in steel-making.

The global energy problem will attract solutions for as long as the population demands more energy and the next big shift in the energy sector could mean a boom elsewhere and render Pittsburgh yesterday’s news. Then again, with so many Western PA businesses working to shift the direction of energy don’t be surprised by another Pittsburgh rebound.

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Wilks Masonry was a family-owned subcontracting business in the Dallas suburb of Cisco. In 2002, the brothers were becoming frustrated that they could not find anyone to frack the natural gas wells that they owned in the new Barnett Shale gas play, so they took matters into their own hands and figured a way to extract natural gas from their holdings using a new hydraulic fracturing method. Frac Tech was born. In the decade that followed, Frac Tech expanded its services to vertically integrate the varied aspects of shale well drilling services under their brand. When the Marcellus Shale play began in 2008, Frac Tech followed their bigger customers, who employed Frac Tech’s horizontal drilling to prove and later produce natural gas in southwestern PA.

Frac Tech had been a great success story prior to the Marcellus play, growing its revenues to more than a quarter billion dollars annually, but the opportunity in Marcellus Shale boosted their revenues more than five times by 2011. In 2009, Frac Tech was leasing space in Brownsville, PA but their business was outgrowing their facilities already.

“We wanted to purchase our own property and construct a facility designed to better accommodate our operations, customers and employees working in the Marcellus Shale,” says FTS spokesperson Pam Percival. “This location needed to be accessible for our operations in Pennsylvania, Ohio and West Virginia.”

According to FTS vice president of construction and projects Steve Roth, site selection criteria included existing industrial zoning, access to interstate highways for transporting equipment and work crews to customer job sites, as well as for bringing in equipment and supplies and a location on a rail spur to provide transportation for supplies and equipment. They found a 28-acre site off Route 519 just north of Eighty-Four PA.

Designing the project in Eighty-Four presented some challenges that Johnson & Pace weren’t accustomed to seeing, says engineer Jonathon Maglott, who handled mechanical design.

“It was different for us because we typically do projects in this region of the country and there were a few considerations in Eighty-Four that we don’t usually face,” he says. Maglott explained that weather, especially wet weather, isn’t something that often impacts the schedule of a fracking operations center. He also implied that the regulatory environment was different in Pennsylvania than in the southwestern states.

“There were way more regulations than we normally encounter,” he chuckles. “It took a matter of a couple years before all of the federal and especially the state agencies did all the reviews. We’re used to dealing with a city or township or maybe a county review.” Maglott said that while there may have been a little resistance to the kind of project that was being planned, the delays were more a matter of the number of agencies and the reliance on individual interpretation rather than just meeting a specific code requirement. “You’re more at the mercy of the person reviewing the plans.”
Frac Tech invited three local contractors to bid the project competitively in early 2010 but the project hit a couple of snags. After the bids were taken the project needed to be re-designed. And by summer 2010, Frac Tech’s own success was slowing progress as the company’s boom precipitated the preparation for an initial public offering (IPO) in late 2010. Before the IPO could occur, however, the Wilks received an offer from a Singapore-based buyer. In April 2011, Temasel and RRJ Capital acquired 70 percent of Frac Tech and changed its name to FTS International. With the delays in design and corporate dealings, the schedule for the project had been delayed but the need for the operations center hadn’t gone away.

To accelerate the progress again, FTS contacted several contractors, including previous bidder Nello Construction to interview in April 2011 for the contract to build the project. The contractors got an inkling of how the project would go from the logistics of the interview process, which was arranged to avoid wasting any further time.

“The interview was actually conducted in a hangar at the old county airport,” recalls Gino Torriero, Nello’s executive vice president. “Frac Tech had reserved a conference room in one of the offices. After the interview they got right back on the plane and flew home.”

Although the circumstances were unorthodox the result was fine with Torriero. Nello Construction was selected as the contractor and they were awarded a project that was going to be a $9 million job on a fast track. Or at least that was the plan at the outset. FTS planned for the project to be completed within six months but they had only begun the final process of getting local approvals. Although the
most time-consuming reviews had already been handled in Harrisburg, Johnson & Pace were unaware that securing a building permit in southwestern PA isn’t only a matter of completing an application and signing a check. The last minute delays in permitting were less of an issue, however because Mother Nature was making progress almost impossible.

“It was an extremely wet site to begin with but with the spring and summer we had in 2011 it was particularly difficult,” says Jerry Falso, Nello’s project manager. “I don’t think any of the 28 acres went untouched. It was a very extensive and intense site work project.”

Jonathon McGlott also recalls that the site presented an unusual number of headaches, in part because the design was more compact. “[The site] was basically a hillside and we had to cut out part of the hill to build the plant,” he says. “The parking area is above the level of the buildings for example, because the overall site is small for the facility. With the topography we had drainage problems.”

Falso echoes McGlott’s comments about drainage.

“There was a lot of underground water as well so we had to do subsurface drainage,” he says. “One of those was an 800 foot by 80 foot wide containment pond. The outfall for the pond went to the creek across the road from the plant, which meant that we had to bore across the main line of the CSX railway.”

The rail boring was one of those “uh oh” moments that happen in projects because the need to coordinate with the railroad hadn’t been foreseen during planning. Rail carriers are never enthused about construction that intrudes upon their lines but can be especially sensitive to last minute requests. Jerry Falso says that the team had to react as though this were an emergency and put together an intense effort to be fully prepared for what CSX would demand.

“We had to go through all of the engineering, permits and regulations of the railroad in a very short time period,” Falso says. “We worked with CSX and then with a local agent to identify a window of opportunity to do our work without
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Having experienced project management and supervision and being located only seven miles from the jobsite gave the company comfort that whatever challenges arose could be met.

disrupting them. We ended up with an eight hour period of time to bore under the rail bed and return the line to CSX.” Falso remembers that even that endeavor had an element of weather. “As we waited for the final approval we were all on the edge of our seats because it kept raining and filling the detention pond.”

As the project progressed, fortune shone more favorably as well. Like most of the projects related to gas exploration, the FTS project in Eighty-Four was disproportionately weighted with site work and heavy construction so the drier summer helped Nello and their team make up ground. In addition to the bulk earthwork and site work there were also several acres devoted to rig parking and two railroad sidings for receiving the sand that is used in fracking and distributing it into silos. There are also a significant amount of storage facilities and containment structures that are used for the chemicals that are mixed with the fracwater solutions.

By the time the buildings themselves went up the project was in a straight-forward phase. Because the plant is located in a colder climate the engineers had to ensure there was room in the building exterior and the piping runs to allow for the extra insulation. The buildings include a 16,000 square foot warehouse and laboratory used for effluent testing and a 20,000 square foot office that includes the Marcellus regional offices and the shops for working on the construction equipment. That building also houses two 20-ton overhead cranes.

A truck wash facility with two commercial bays was also part of the scope of work. FTS uses these facilities to keep their equipment clean and captures and recycles the wastewater from the wash, skimming off the hazardous materials and reusing the grey water.

In counterpoint to the difficult rainy spring in which the project started, the warmer and drier winter helped Nello wrap the construction up by mid-March 2012.

When Nello Construction was selected its management felt that the company’s long history offset their inexperience building facilities like FTS’s, which were unique to this region at the time. Having experienced project management and supervision and being located only seven miles from the jobsite gave the company comfort that whatever challenges arose could be met. By the completion of construction Jerry Falso feels that’s exactly what happened.

“There is always an adjustment getting used to the time constraints of a new client and there were some difficult challenges on this project, but there really were no issues,” he says. “There was nothing [on the FTS project] that presented anything different from the construction difficulties that we normally encounter on any project.”
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Whitacre was a new assistant professor at Carnegie-Mellon in 2007, with a joint appointment in materials science and engineering in the Engineering and Public Policy departments. Whitacre had previously been a member of the technical staff at the Jet Propulsion Laboratory in Pasadena, where he focused on research and implementation of materials and methods for creating electrochemical storage of electricity. He was part of the team that worked on the rover program at the Mars Science Lab, helping to develop the energy storage components for the descent stage of the Mars landing. When he came to CMU in 2007 Whitacre put a research grant to work to discover a new solution to electrochemical storage, which was to find a new and lower cost technology for stationary storage.

Advances in the storage of electricity had been focused more on providing energy for propulsion or mobile applications. Whether in batteries or fuel cells, technology improvements had placed a premium on reducing size or weight. Whitacre hypothesized that for stationary devices the size and weight wouldn’t matter as much as providing extended life or extremely low cost of implementation. In fairly short order his research would prove out that theory, although success may have eluded Whitacre without the help of an iconic fashion label.

“When Jay was finalizing the chemistry it just wasn’t working. From what he believed of the chemistry it should have worked but the battery kept crashing,” says Ted Wiley, vice president for business and market development. “He assured that the electrodes were OK and tried every available separator. Then he remembered that the first ever battery had used cotton as a separator so he cut out a piece of his tee shirt – it was a Calvin Klein tee shirt – and it worked. For the first month he used only that tee shirt for material in case there was something special about it!”

What Whitacre developed in the laboratory was an aqueous hybrid ion (AHI) battery that stored electricity using electrochemical couples that could be housed in safe, inexpensive devices. The prototype battery was very efficient, had a long cycle life, could be completely recycled and could be manufactured in modules to serve a broad spectrum of energy needs. It was a rechargeable device that was part battery and part supercapacitor with a water-based electrolyte solution. The battery is most useful in that it can be discharged and charged many times in a very efficient way, making it valuable for customers who would be active daily users.

The resultant technology showed commercial promise by 2008 and Whitacre wrote a patent application and teamed with venture capital firm Kleiner Perkins Caufield and Byers. With KPCB partner Bill Joy, Whitacre founded 44 Tech Inc. as an incubator company to develop
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become aggressive in its promotion of renewables, the electrical energy. As those sources expand, or if a government were to explore other solutions, including adding much more renewable sources of energy, the electrical grid will become de-stabilized or overloaded. Using batteries to store electricity generated beyond the grid's capacity would expand the total energy supply, even if improvements to the grid lagged advances in generation.

In the near term, Aquivion's more accessible usefulness is in smoothing out the supply of electricity from intermittent sources like wind, solar or generators. These applications are the low-hanging fruit right now, when Aquivion is completing its final battery designs and engineering for manufacturing. At their current pace, Aquivion should be ready for manufacturing demonstration models of lower voltage batteries in 2012, with commercial production in 2013. By that time some of its capacity will have moved into its new space at the old Sony plant in New Stanton.

Earlier this year Aquivion made news by agreeing to lease 250,000 square feet in the Sony facility, which is owned by the RIDC. Renaissance 3 Architects has been hired as architect for the renovations of the space. When construction and equipment installation is completed the investment in the facility for production will be roughly $30 million.

“The Westmoreland County selection was based on a nationwide search – we knew we wanted to be in the U. S. – that looked at proximity to customers, research and development and skilled workforce, plus incentives from the states,” explains Wiley. “When we put it all together PA was the clear winner. Kudos go to Gov. Corbett and the PA economic development people who put the whole package together.”

A single Aquivion battery is a durable, recyclable plastic device that is the size of a washing machine and can be linked with other batteries to form a very large battery. Eliminating size and weight as limitations liberated Jay Whitacre and Aquivion's engineers to focus on capacity and efficient charging cycles. The modular design allows for linkage of batteries to create enormous storage capacity, the kind that can replace the need to generate electricity to the grid by allowing users to draw down electricity that was previously stored.

“Our focus is on off-grid power generation or on-grid energy management as markets,” says Wiley. “Even just at the edge of the grid there are a lot of projects.”

Wiley says that the company's ultimate goal will be as an energy management device in big on-grid applications, allowing utilities to generate and store electricity when the power plant is most effective, allowing them to time their response to peak loads better. Solving the global energy problem will involve a portfolio of solutions, including adding much more renewable sources of energy. As those sources expand, or if a government were to become aggressive in its promotion of renewables, the electrical energy demand is relatively constant or at least its demand peaks and troughs are predictable. What Wiley is talking about is using batteries to collect electricity generated by intermittent sources – like wind and solar – or by power plants during their most efficient generating periods, which are often not when demand is at its peak. The strengths of Aquivion's battery technology are its life – which allows users to rely on efficient use when generation fails – and its capacity to charge and discharge frequently – which makes it effective in planned draws in place of generation. The former benefit makes Aquivion's battery effective as a power source for off-grid users, like customers using wind or solar. The latter quality best suits applications where the battery can be aggregated and used to provide electricity at peak times so that power plants can operate more efficiently. And because the batteries are made of inexpensive materials and processes, Aquivion can provide solutions that are affordable.

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Company Facts
Aquivion Energy
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Pittsburgh PA 15201
(412) 408-3383
www.aquivion-energy.com
Founded 2009
Number of employees: 80
Dr. Jay Whitacre, founder
Scott Pearson, CEO

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**A Drug Free Equal Opportunity Employer**
Is it Safe Enough to be an “Additional Insured”?
By Louis C. Long, Esq.

The recent decision in Lafayette College v. Selective Insurance Co., 2011 WL 5433698 (3d Cir. November 10, 2011), presents two of the common problems that confront parties that use additional insured requirements in their construction contracts as a means of allocating the risks that arise from such projects. Fortunately for the college, its exposure for defense costs incurred as the owner of the project where a worker was seriously injured was successfully transferred to one of two insurers that covered contractors on the job. The primary lesson to be drawn from the case, however, is that great care must be exercised in drafting additional insured requirements. A secondary lesson is that, even if the contract contains sufficiently specific language regarding the extent of coverage required for the benefit of the additional insured, both parties to the contract must review the coverage actually granted by the insurer to ensure that it fulfills the requirements of the contract. Failing to take these precautions could lead to uninsured losses.

The college hired a general contractor to renovate a building on the campus. The general contractor engaged a subcontractor to perform some of the work. Both the general contractor and the subcontractor took steps to obtain policies naming the college as an additional insured, as required by their respective contract documents. The general contractor's policy contained an additional insured endorsement that granted the college coverage, but only "with respect to liability caused by your [i.e., the general contractor's] ongoing operations." The subcontractor's policy also contained an additional insured endorsement, the text of which was not quoted in the decision, but the coverage granted to the college was regarded to be primary only “if it is required in the contract.”

While the work was being done, an employee of the subcontractor fell from a scaffold. He sued the college, the general contractor, and others. The college tendered the suit to the insurers of the general contractor and the subcontractor, but both denied coverage. A verdict of $6,800,000 was entered in favor of the injured worker and the college was held for 35% of the judgment. The judgment as to the college was overturned on appeal, making the college’s demand for indemnification moot. However, its claim for reimbursement of defense costs remained.

The first problem confronting the college concerned the scope of the coverage granted to it as an additional insured under the general contractor's policy. The court regarded the additional insured endorsement as unambiguously limiting the insurer's coverage obligations to liability caused by the general contractor's negligence. Stated differently, the court construed the language of the endorsement to provide coverage to the college only for its vicarious liability arising from the general contractor's actions. After reviewing the allegations made against the college in the worker's complaint, the court held that the claim against the college under the so-called “peculiar risk doctrine” were sufficient to trigger the insurer's duty to defend which, in turn, included all of the claims asserted against the college, even those alleging its own negligence. The “peculiar risk doctrine” is an exception to the customary rule that one who employs an
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independent contractor is not liable for the torts committed by that independent contractor. Under that doctrine, employers of independent contractors are vicariously liable for the torts of the independent contractors when the risk is foreseeable to the employer at the time of contracting and the risk is different from the usual and ordinary risks associated with the general type of work done. While the appellate courts in the underlying accident case ultimately ruled that the college was not liable because the risk of falling from the scaffold was not a “peculiar risk,” the Third Circuit, in this coverage dispute, had to accept as true the claim as it was pled by the injured worker and it could not go behind the allegations of the underlying complaint to reach the merits of the claim. Thus, the issue before the court in the coverage case was whether the allegation of the “peculiar risk” claim activated the duty to defend under the additional insured endorsement running in favor of the college.

The college failed to specify what coverage it wanted the general contractor to obtain for its benefit, but it was saved by the fact that the complaint alleged a theory of vicarious liability that fell within the narrow scope of the additional insured endorsement contained in the policy. If the complaint had not invoked the “peculiar risk doctrine,” and had merely alleged claims of negligence on the part of the college, the college would have had no recourse under the additional insured endorsement.

Owners of projects seeking protection as an additional insured and contractors called upon to add owners as additional insureds need to be aware that there are over two dozen different versions of additional insured endorsements commonly used by the insurance industry. Moreover, some insurers eschew the use of standardized forms, choosing instead, to craft their own policy language in an attempt to limit the protection that they may be called upon to provide to the additional insureds. Consequently, when a contract document simply calls for the owner to be designated as an additional insured, the owner is at the mercy of the insurer. The additional insured endorsement could be broad enough to encompass allegations of the owner’s own negligence, or it could be narrowly limited, as was the endorsement in this case, to matters of vicarious liability only. To avoid this problem, owners seeking broad protection should use great care in wording their additional insured requirements, so that the expectations of coverage are spelled out, rather than being left to the vagaries of the insurance industry. On the other side of the transaction, contractors required to obtain additional insured status for owners need to be aware of the language of the additional insured endorsements added to policies, so that the endorsements added actually fulfill the expectations of the owners. Unless there is a complete meeting of the minds, the coverage granted could fall short of the expectations of the owner and/or the contractor, with the end result being a gap in coverage.

The second problem confronting the college was the issue of whether the subcontractor’s policy would provide primary or excess coverage to the college as an additional insured. The court held that the policy language was clear, in that the coverage was deemed to be primary only when the contract required the subcontractor to provide primary coverage for the benefit of the college as an additional insured. Otherwise, the coverage granted to the additional insured would be excess to other available coverage. Because the contract documents were silent as to whether that coverage for the college was to be primary or excess, the court held that the policy was excess.

The moral of this part of the story is that the additional insured requirement should specify whether the coverage for the additional insured ought to be primary or excess. Taking the matter one step further, the contract document should also specify whether the coverage, if primary, should be contributory with any other primary coverage available to the additional insured. In many instances, owners may have access to other policies naming them as additional insureds, or even to their own policies issued to them as named insureds. These policies could provide co-primary coverage with the one in question, and all of the insurers may be required or permitted to pro-rate the loss amongst them. This could have the undesired effect of having the owner’s other insurance sources respond to a loss when the owner’s intent was to transfer all of the loss to a contactor’s policy. So, when the owner wishes to subordinate its coverage to that provided for it as an additional insured, the contract document should specify that the coverage afforded to it as an additional insured shall be primary and that it shall not require any contribution from any other source of coverage. Once again, the contractors procuring additional insured coverage need to be aware of the requirements set forth in the contract documents, and they need to take the requisite steps to ensure that their policies meet the demands of the additional insured requirement.

It is sad to say that many contract documents are inadequate because they merely require a person or entity to be designated as an additional insured. Moreover, requests made of insurance companies to add additional insureds to policies are often similarly deficient because they do not adequately express the expectations of the contracting parties regarding the scope of the coverage necessary to meet the demands of the additional insured requirements. This uncertainty often goes unaddressed until after a loss occurs and, by then, it is too late to remedy the situation.

Whether giving or receiving additional insured protection, parties should have the additional insured requirements of their contracts reviewed by counsel and/or by insurance professionals to ensure that the needs are adequately articulated. Further, once the additional insured endorsements are issued, they need to be reviewed by counsel and/or insurance consultants to make certain that the contract requirements are being met.

For more information, please contact Louis C. Long at LCL@Pietragallo.com.
Land Owner Groups: Some Keys to Success
By Steve Franckhauser, Esq.

Land owner groups are sprouting up across the shale play landscape and virtually every landowner has received some sort of postcard sized flyer touting the benefits of leasing through one service or another, usually from businesses that did not exist years ago and may not exist a decade from now.

So, what to look for in land group organizations?

The general purpose of land groups is to unite adjacent landowners by concentrating their negotiating power and increasing their leverage with oil and gas producers. More specifically, it is to get better financial terms for contracts (“leases”) that will last for decades and making sure that the terms and conditions of those leases are understood and key protections afforded to the oil and gas resource owner.

Sometimes, people are so dazzled by the bonus offer and the verbalized royalties promised by land men they neglect to consider the fine print in which the leases are presented to or rely on verbal assertions by the land man to base their decision. Land groups are good ways to share information, expertise and wisdom. Here are a few critical first steps to land owner group success.

Organize into a legal entity. No one needs to subject themselves to personal liability and without the benefit of a properly formed and operated legal entity; persons who “take charge” may find themselves at the wrong end of a dispute among the group or third parties.

Contiguous Acreage. For development to be attractive, the land involved must be as contiguous as possible. This eliminates securing the “missing links” from the equation and makes it easier for the producer to manage the property.

Due diligence on leased lands. As much as possible, resource owners need to determine beforehand whether their land is already subject to a lease. How will you know this? First, read the lease and if you can’t find it, see if you can get a copy of it or the Memorandum of Lease from the county Recorder of Deeds office. Once a copy of the lease is obtained, you should consult with a qualified oil, gas and mineral rights attorney to review the lease. If your land is already under an existing lease, then you need to understand if there is any possibility that it will end.

Pay attention to the Lease. Unless you want to give virtually unfettered rights to the producer, it is critical that each person take the time to understand each and every portion of the lease. The temptation is to view leases as a “one size fits all” document or be lead into the belief that the leases are all the same.

Integrity and ethics. Unless the entity chosen by the group is primarily concerned with achieving all your goals and understands the dynamics of your land, your business and your aspirations for this property, you will still be a pawn in the game. The key is to choose an entity or person who has both the experience of having performed in this area and one that does not compromise long term goals for very short term gains.

We see and hear shale gas resource owners unfairly characterized as lottery winners. Lottery winners are, at their core, gamblers. Our clients are not gamblers in the energy field. To the contrary, many are veteran business owners already, be it in farming or timber harvesting or some other land based business. But they are new to the energy industry and with the public eye focused on the energy producers they tend to be ignored in the public debate. Resource owners need coaching and advice that recognizes them for the role they play in gas exploration: owners of vital resources for which there is an established demand in an emerging field filled with uncertainty.

The advent of exploration of the Marcellus and Utica Shale formations for gas, oil and other valuable commodities is a game changer for our region. With new games come new rules. Those who own the resources which the gas producers will extract must come to see the agreements they make as the bedrock for their
financial future. That future will likely be governed by very different rules about tax, wealth advisory and estate planning than they were accustomed to following before.

For land owners without experience negotiating leases for their mineral rights, there are few opportunities in life that can provide the experience that will be needed to allow safe exploration of the resources while protecting legal rights and optimizing the return on the lease. Banding together with other resource owners is one way to lean on the experiences of others and bolstering the strength of their position.

HBK Energy works with resource owner groups and legal counsel for the group to assist them in all aspects of the oil & gas shale process. The goal of our CPA’s and advisors at HBK Wealth Advisors™ is to educate resource owners to better understand the business they are about to enter. If you or your group is interested in speaking to us about our land owner group division, please contact us.

Steve Franckhauser, Esq. is the Director of HBK Energy and works out of the Boardman, Ohio office of Hill, Barth & King LLC. © Copyright 2012 HBK, LLC all rights reserved.
AIA-MBA Joint Committee By The Numbers

47 – The number of years that the AIA-MBA Joint Committee has existed. Chartered in 1965, the Joint Committee provides a unique forum for architects, general contractors and owners to meet and discuss current conditions of the construction industry.

45 – The number of years that the AIA-MBA Joint Committee Best Practices Guide has existed. Referred to as the AIA-MBA Yellow Book until two years ago, the Best Practices Guide is a compilation of published guidelines that reflect the best practices for procedures involving drawings and specifications, bidding, contract documents and administrative processes during construction.

40 – The number of recommendations that are contained in the Best Practices Guide.

27 – The number of professionals that comprise the Joint Committee.

23 – The average number of years that a committee member has been in the construction industry.

4 – The number of industry stakeholders represented on the Joint Committee: Architects, General Contractors, Legal Community and Owners.

2 – The number of associations represented by the Joint Committee: AIA Pittsburgh and the Master Builders’ Association.

1 – The Joint Committee is the ONE collaborative voice of the construction industry that has passed the test of time by providing impartial recommendations for the benefit of the construction industry for nearly half a century.

Current Initiatives of the Joint Committee:

BIM – A task force comprised of regional experts in the field of virtual construction will soon publish a BIM recommendation for the Best Practices Guide. Additionally, this task force is working on a more detailed BIM Reference Guide.

Flooring Failures – Due to the increasing number of flooring installation failures, a task force formed to raise awareness on the issue. An article on the subject appeared in BreakingGround, a white paper will soon be finalized and then lunch-n-learn presentations will be offered.

Construction Contracts – To showcase the collaborative spirit in the region, a task force formed to make recommendations to amend perceived unfair provisions from commonly used construction contracts.

For more information on the AIA-MBA Joint Committee, visit www.mbawpa.org/aia-mba/ or contact Jon O’Brien at 412-922-3912 or jobrien@mbawpa.org.
After more than 20 years on the front lines as an electrician, James Newton had a vision of creating a business that would provide opportunities for those in his community who needed a second chance. That vision would lead him first to found a company and then to form a partnership with a businessman who shared his view of the world.

Newton had spent most of his career as a maintenance electrician working for contractors in the industrial sector. In 2005 he started Newton Electric and navigated the process of certification as an MBE contractor. One of the elements of his business plan was to use growth to hire and train at risk young people or people who were looking to rebound after making bad decisions. Within the first year Newton Electric was hired to be a subcontractor on Dumplin Hall, a housing project on Hays Street in Wilkinsburg. The project had Newton working with Chris Levitt, who owned an electrical contracting business in Sharon, PA. Levitt’s father had operated a commercial electrical contracting business and Chris had started his own residential business in Sharon in the early 1990’s. Newton and Levitt managed to coordinate their scopes of work well on Dumplin Hall and the two men found they saw more opportunity working together on a more permanent basis.

“The patterns of our lives were in such sync with each other,” says Newton. “The decisions that we had made, how we felt about life in general.”

“We used to have breakfast regularly at Ritter’s,” recalls Levitt. “We would talk about the project but often we didn’t talk about work at all. Jim is a pastor and I’m very involved with my church. We discovered that we have a lot of the same beliefs about life. That’s important if you are going to be yoked together in business.”

Both men had emerged from college without a plan to follow their education in any specific direction. By coincidence, the two men had been part of the same class when each certified their business with the City of Pittsburgh (although they didn’t know each other at the time). The proximity of their work on Dumplin Hall gave Levitt a chance to observe how Newton Electric worked and how Jim Newton approached his business. Before the project was completed they decided to...
form a joint venture company – to be called NL Electric – to pursue the Bedford Dwellings replacement project.

Shortly after founding NL Electric in 2007 they were successful in landing the electrical contract for 225 units of new housing along Bedford Avenue in the northwestern section of the Hill District. The project was multi-phased and allowed NL to produce the work over more than one year but the size of the job was a concern to the two owners, who looked at such a project warily.

“I looked at others who took on big jobs before they were big enough to handle them and went under,” says Newton. “We wanted to establish ourselves and our reputation before we moved up.”

Newton says that the company’s volume has grown from $500,000 to $1.2 million annually in a deliberate manner, even if that approach meant declining bigger opportunities when he and Levitt felt that the projects were beyond their capacity to produce the work.

“One of the things that Jim and I share is the opinion that other MBE contractors have hit the ground running and just gobbled up work too fast,” explains Levitt. “Jim and I have held firm to the belief that we’re going to manage our growth.”

NL Electric’s controlled growth still allowed the company to develop a portfolio of multi-dwelling residential projects. The firm has worked on 190 units of the East Liberty Dwellings; Negley Neighbors for the East Liberty Development Inc.; the privatization/conversion of the former Kane Hospital to assisted living in Ross Township; and currently on the third phase of the East Liberty Dwellings. NL has also been expanding into non-residential construction, working for Massaro Corp. at UPMC Horizon Health in the Sharon area.

The company now employs 15 and the growth has allowed Jim Newton to bring his vision of doing well by doing good to fruition. As NL Electric has added employees Newton has been intentional to bring on young people who need a break.

“We’re giving them a chance but we have to show them it’s not a picnic,” he says. “We expect them to work hard and show up on time – that means 6:00 not 11:00. It’s a gift but we let them know that it’s a one-time chance.”

Newton’s inspiration for this facet of his business’s mission is a nephew who became entangled in gang life and spent time in prison. “I met with him in prison and he said he wanted to change his life. I hired him when I started Newton Electric and he’s still with NL today. He’s now begun to run work for us. He’s married and has two kids. He owns a house. He’s a young man who is blossoming now.”

While the social mission of the business is important to Levitt and Newton, they are equally committed to maintaining the arc of NL Electric’s growth, both in terms of business and reputation. Newton appreciates that Levitt recognized his desire to become a good electrical contractor rather than a good MBE contractor. The firm is in the process of locating a new Pittsburgh office and will continue to manage their operation with an emphasis on delivering on expectations.

“The key to this business is service,” notes Levitt. “If we don’t think we can take a job and give the kind of service that we would expect to receive we don’t do it.”

**Company Facts**

**NL Electric Inc.**

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Natural Gas Prices Have Dropped to Record Low Levels

The detractors of natural gas exploration in Pennsylvania have employed a number of methods to try to slow or halt the fracking and extraction of gas from the state. None of those efforts has been remotely as effective as the current trend in the price of natural gas has been.

Over the course of industrial American history the price of natural gas has risen and declined on a similar trend to that of crude oil. Less than four years ago both commodities reached high points that raised alarms about the security of the country and the economy if one of our best competitive advantages – cheap energy – faded away. The financial crisis was a pinprick in the balloon for both oil and gas but as the economy recovered only oil returned to an upward trajectory. As spring unfolds, the price of natural gas continues to decline, putting financial pressure on natural gas companies and bringing the euphoria over the economic potential of the Marcellus Shale down a notch.

On April 19, the price of natural gas at the Henry Hub was $1.90 per MMBTu. That price is $2.40 lower than April 19, 2011. Contrast that to the price of oil, which was $103 per barrel compared to $108 per barrel one year ago (and oil has hit that $108 price as recently as March 23, 2012).

The price collapse is not owed to one event or driving factor. Commodity prices should be a function of supply and demand and for gas the problem is that both sides of the equation have been going in the wrong direction. According to the Energy Information Administration, the amount of natural gas being produced in 2012 in the U. S. is on a pace to be roughly 23 trillion cubic feet. That represents an increase in supply of 15 percent over 2010 and an increase of 28 percent over the volume in 2005. In the same time a global recession and steady efforts to conserve energy and use renewable resources has been bringing demand lower, some 2.5 percent lower in 2011 compared to 2010 for example.

The result in simple terms is that there is a glut of natural gas. As of April 13, the natural gas inventory stood at 2.5 trillion cubic feet, up 871 billion cubic feet or more than 50 percent compared to a year earlier. How we got there was a combination of bad luck, bad timing and good reserves.

The Marcellus Shale play coincides with the steady decline in gas prices but the origin of today’s oversupply was with the high prices and aggressive production in the Haynesville Shale formation in east Texas and Louisiana much earlier, according to Range Resources senior vice president Rodney Waller. In the early 2000’s interest in Haynesville was high and lease deals reflected that, with companies sometimes paying $25,000 per acre or more. Those deals were done when gas was in the eight dollar neighborhood and the producers could still make money. After the recession began the gas companies chose the route of following through with their drilling programs because of the big investments already made. Waller estimates that drilling added as much as five percent of the total gas supply to an inventory that was already swelling.

As the country was fighting its way out of the recession, which reduced the consumption of natural gas significantly, the technology to cost-effectively frack and drill horizontally unlocked the rich reserves of the shale formations in the U. S. The discovery of shale borne oil and gas came at a time when domestic production of energy was being equated with national security and the potential of shale gas meant prosperity for the areas being explored. In short order the industry was moving aggressively to the Bakken Shale formation in North Dakota and, of course, to the Marcellus and Utica Shale formations in Pennsylvania, West Virginia and Ohio.

Two more supply problems arose as the shale plays unfolded. The first was pretty straight forward and would otherwise be considered good fortune, that is that the productivity of the shale was much higher than forecast. In many cases drillers found pressure and reserves that were three times what was expected.

The second problem was that the competition to get into the shale regions pushed drillers to execute a large number of leases
while the price of gas was still above five dollars. To keep those leases in place the gas companies had to produce or risk losing the rights to that property when the lease expired, often in five years. Drilling to perpetuate a lease for rights that are not profitable seems like a poor decision, but the industry is accustomed to dealing with boom and bust conditions and generally places a high value on the right to extract minerals, even if the price doesn’t support current activities.

Since the end of 2011 the price pushed gas companies to move assets out of areas with wells that yielded only methane and caused others to pare back drilling and production dramatically. None of the companies have indicated a specific price at which drilling is no longer economical but a recent Chesapeake Energy transaction gives an indication.

An investment unit of Morgan Stanley purchased a ten-year volumetric production payment from Chesapeake for gas from the Anadarko Basin at what is approximately $4.68 per MMBTu. In its announcement of the deal Chesapeake referred to the price as 300 percent of its cost to drill. Assuming that drillers have similar costs, you can conclude that the cost of drilling is somewhere between $1.50 and $1.60 per MMBTu. At current prices natural gas is providing thin margins to those willing to explore. Given the nature of natural resource exploration, profit margins eventually have to support some activities that don’t produce as planned. Without a reversal of pricing natural gas drilling can’t go on if the price goes much lower.

So, what will help support the price of natural gas and thereby make the Marcellus Shale fields as attractive as they were just a few years ago? An increase in demand would be the best remedy, particularly if the growing demand comes at the expense of demand for oil. If it were economically feasible to convert more coal-fired power plants to gas or if a wholesale shift in fuel for over the road and government vehicles to liquid propane, supply would be used more rapidly. What is most likely, of course, is that the supply of extracted natural gas will have to shrink to counterbalance the oversupply that produced the current pricing. And there is a lot of evidence right now that a shift is underway.

One of the shifts – the reallocation of assets from dry gas areas to wet gas areas – is well underway. With oil prices remaining high there is an incentive to continue drilling for oil and most companies that can put resources into oil exploration instead of gas are doing so. In areas like the Marcellus where leasing is somewhat pervasive, there will be drilling to maintain production but with fewer wells. And, as you might expect, leasing activity will come to a halt.

It’s important to remember that the lower demand being discussed is domestic demand. An obvious solution on the demand side would be to start exporting the natural gas to parts of the globe where energy demand and prices higher. Natural gas, unfortunately, is difficult to export in the way the other commodities are. To do so would require pipelines to those markets – which don’t exist – or the capacity to liquefy the gas for shipment in tankers. Liquefying gas is expensive because of the limited facilities to do so. As of April, the $10 billion LNG plant and terminal planned by Cheniere Energy in Cameron Parish, Louisiana - one of the largest construction projects in the nation’s history - has been approved to commence. That plant, which will add one billion cubic feet per day to the LNG capacity, will not be available to help boost exports until 2015 or later.

Another strategy that may prove fruitful is leasing or selling the rights to LNG in advance of the actual extraction and liquefaction. This would involve producers transferring their reserves to foreign companies or countries prior to extraction. Chesapeake Energy is one of the regional producers that have indicated a plan to find buyers for some of its assets in Pennsylvania and Ohio. With gas prices in Asia near $15 while domestic prices are below $2, it’s not hard to envision a deal that finds a favorable price point between the two.

Whether the natural gas gets into the hands of overseas buyers before or after extraction, exporting the oversupply of gas that exists would help on several fronts.

Making cheaper gas available overseas would improve the economies of our export partners and would help consumers in those markets have more discretionary income available for purchasing of other U.S. exports. A lower, more stable energy price will help those areas politically as well and weaken the positions of several of the countries whose interests don’t align with American interests. Increased exports would increase the price of U.S. gas.

Although there are downsides to the consumer, an increase in price to the historical norms should not have a negative impact on the average household but it will remove a barrier from the progress of a growing domestic industry. The earliest indications of increased exports will likely also entice speculators to buy natural gas in anticipation of higher prices, which is the kind of market action that has helped add $5 to $15 per barrel to the price of crude oil in recent years.

Perhaps it is from the traders and speculators that we can get some glimmer of hope that a shift in price trend is imminent. Analysts following the commodity have been writing of late that the technical conditions of the gas market are indicating a played out downtrend. Citing both divergence and declining momentum, these analysts are forecasting a reversal that should set off an extended rally in prices. But given the depth of the decline, even a rally that produces a 100 percent spike in prices will stop at a level that is only marginal for encouraging more activity. }
Labor Pension Funds Are Looking to Make a Different Kind of Green

After the financial crisis, labor unions were among the groups that were highly critical of Wall Street’s investment banks. AFL-CIO president Rich Trumka even supported the Occupy Wall Street movement. As the voice of the ‘working man’ it isn’t illogical that the AFL-CIO would take that position, especially in light of the fact that the meltdown also created a major decline in the value of union pension funds. At some point in the process of taking Wall Street to task, however, labor realized or had it pointed out that its pension funds helped enable the big earnings and greed the AFL-CIO was decrying. This realization has created a new initiative that may have an impact on making America’s built environment greener.

Trumka asked his advisors to put their pension funds to work in ways that create jobs and invest in a socially responsible manner. To put funds to work in the construction trades they began exploring ways to invest in construction projects that would save energy and reduce our carbon footprint while creating jobs. The concept is not entirely new. In Pittsburgh, PenTrust has been administering the union Employee Real Estate Construction Trust (ERECT) Funds to finance construction projects since 1987. And energy savings companies (ESCO) have been using savings from energy retrofits to pay for the construction for the better part of two decades.

What makes this initiative different is that it combines aspects of the investing and energy savings and uses the funds to invest in commercial buildings, a category that includes roughly 85 percent of the building stock but that commercial lenders are unable to finance for these types of projects.

The financing problem is one that is a structural impediment. The majority of commercial buildings are mortgaged and the lender has a first lien position on the building and mortgage. An energy retrofit is an expensive improvement and financing it would require a waiver of the first lien on the mortgage. Lenders won’t finance an improvement without a lien waiver and the banks have little incentive to waive a lien, assuming that the loan has not been bundled and sold as part of a CMBS issue.

One of the AFL-CIO’s senior advisors, Robert Lally approached the Small Business Investor Alliance (SBIA) to help him find a firm that could help him solve Rich Trumka’s problem. The SBIA is the political action committee that aids Small Business Investment Companies (SBIC), which are fund managers licensed by the Small Business Administration. Because SBIC’s raise capital that is matched two dollars to one by the government they are vetted before licensing and more than 80 percent of the applicants don’t get approved. One of the SBIC firms that the SBIA recommended was CAPx Partners, a private investment firm with three separate SBIC licenses.

CAPx has extensive experience working with manufacturers, including financing expansions and equipment financing. What made a firm like CAPx interesting to the AFL-CIO was that they have the flexibility to circumvent the structural impediment of the lien waiver because they can finance a project from its cash flow. Moreover, one of the SBIA’s limitations against investing in commercial real estate or project financing actually worked as an advantage because CAPx could lend to small businesses like contractors or engineers. That gives better control over the use of union labor, which is a key element since the funds are from AFL-CIO pension plans.

The CAPx partner managing the funds is Eric Starr. When Bob Lally came to him he was intrigued by the size of the opportunity and the chance to stimulate more sustainable investments.

“Energy retrofits have been primarily in the MUSH market – municipalities, universities, schools and hospitals – which make up only 15 percent of the real estate footprint but get 85 percent of the projects,” Starr explains. “MUSH can always find capital but commercial buildings cannot.”

Starr explains that the projects are going to be ones that have a reasonably short payback period and that can generate significant enough savings to service the loan and the related fees. Like structured finance deals, these energy retrofits need a certain surety that the promised savings will happen after the renovation. For these projects an energy auditing company can act in the role that a rating agency plays with bonds but the guarantee will come in the form of insurance. When the deal is completed it is the owner who will make the payments to lender, who in turn will distribute a small portion of the monthly payment as a fee to an energy engineer and for insurance premiums to
back the savings guarantee. The theory is similar to how theESCO’s operate except that the investment fund is making itsmoney purely on the financing of the project. CAPx is planningon returning ten percent to its investors.

“If the retrofit program designed won’t create enough return on investment then there’s no business here. There must be enough money saved to justify the project expense and the financing,” says Starr. “My concern is inertia. The market size is $200 billion to retrofit existing commercial buildings and my fear is that building owners will do nothing. We’re trying to be a catalyst to get owners to do this.”

Starr sees the projects being marketed by the contractor or engineer leading the energy retrofit to the building owners. The energy contractor – which can also be an ESCO – will be a union subcontractor that has a pay-for-performance contract with the owner. The final party to the mix will be an insurer.

What may make CAPx's program successful is that it comes at the problem from the side of the owner but through the small business that will provide the energy retrofit services, whether that is a contractor or engineer. If the project was being driven by an equipment manufacturer, like Trane or Siemens, or an ESCO, the owner would also have to be convinced but the guarantee comes from the energy contractor. In CAPx’s model the loop has to be completely closed because it’s the guarantor of the financing that must be convinced. If energy retrofits aren’t able to deliver the savings the risk to the insurer will grow, as will the premiums for insuring the projects, probably to the point of making them unfeasible.

Green Building Alliance CEO Mike Schiller makes the point that the ESCO’s have an advantage in that they have the experience of managing projects, which gives them the chance to control and manage the process. That’s a benefit that investors won’t share. “For someone [like CAPx or the insurer] just getting into it from the financing side, planning to make money from the financing only, they need to quantify the energy savings and the risk very accurately.”

Meeting the challenge of evaluating risk is what private equity and venture capital firms do every day and Eric Starr remains more concerned that building owners understand the opportunity.

“The owner gets a needed project without using his balance sheet to finance it and after the payback the owner gets 100 percent of the energy savings plus the value added from the retrofit...”

CAPx has already set aside $200 million as part of their diversified fund portfolio and are actively seeking projects in which to invest. The projects can be located anywhere in the U. S. but there is a heightened effort by PA’s AFL-CIO chief, Rick Bloomingdale to find projects in Pennsylvania because the state’s pension funds make up one-eighth of the total of all pension funds. Bloomingdale has engaged Strategic Development Solutions to help him raise awareness of the program and educate owners and contractors.

Bernie Lynch is Strategic Development Solutions’ president and was formerly the director of grants and development for Mayor Ravenstahl. She points out that a city like Pittsburgh, which has an older stock of office buildings and malls, is a fertile proving ground for the CAPx fund.

“Think of a building like Oxford Centre, which was built before much was known about energy efficiency and would cost millions to retrofit,” Lynch explains. “This program would allow Oxford to improve that building and provide a contractor with a nice project, while creating a lot of good jobs.” She goes on to say that the intentions of the funds go beyond jobs. “The projects would require domestic content for the equipment and materials and the work done is much needed infrastructure improvement. For the pension funds this is a chance to invest to create value not just wealth.”

“The CAPx fund isn’t all that new and different but it demonstrates that there are more and more business opportunities from being sustainable,” says Mike Schiller. “There are more smart people finding ways to monetize the savings in renovating a building, particularly from the energy efficiency.”
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Carpenters’ training director Ray Vogel, Sharon Landau of Landau Building Co. and James Larkin of Ma’At Construction at the March 30 Meet the MBA event.

Rep. Mike Turzai (left), Buncher’s Joe Jackovic and Dennis Troy of DTI Development at NAIOP’s banquet.
Speaker John Robinson from PNC with PJ Dick’s Mike Koza.

Jesse Campayno of Campyno Consulting (left) with Massaro’s Dan Keifer and Jean-Phillippe Rodrigues of Agile OAK LLC.

NAIOP president Lynn DeLorenzo from PWC Property with past president Dick Donley of Chaska Property Solutions.
Nello president Gino Torriero and wife Mali of Luca Construction at the YC Kickoff on April 5 at Cioppino.

LLI Engineering partner Ernie Tillman (left) with Jendoco’s Dom Dozzi and Dan Rothschild (right) from Rothschild Doyno Collaborative.

Alpern Rosenthal’s Rebecca Ponsonby (left) with Mascaro’s Colin Gibbons and Lisa Wampler from Cohen Seglias at Cioppino.
Mateo Villas from St. Moritz (left) with Mike Sharp, Continental Office and Rothschild Doyno’s Geoff Campbell at the NAIOP Developing Leaders seminar on March 15.

(Left-to-right) Pennoni’s John Skorupan, Burns & Scalzo’s Scott Caplan with Myra Miller and Mike Belsky from Columbia Gas at the NAIOP Banquet.

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The Pittsburgh Riverhounds selected Nello Construction as contractor for their new $3 million stadium on Carson Street near Station Square. The project is scheduled to be completed for the late summer season opening. The Design Architecture is the project architect.

#1 Cochran awarded Nello Construction contracts for three projects in the South Hills. Construction is underway on a new 6,800 square foot building to be used as a Volkswagen dealership and a $2 million renovation/expansion of the Nissan/Infiniti dealership. Nello is also the contractor for the #1 Cochran Automotive Center, a $3.5 million conversion of the 50,000 square foot former Giant Eagle in Castle Shannon into a service and repair facility. The architect for the projects is Nudell Architects.

Massaro Corporation has been selected to serve as the CM by Jefferson Regional Medical Center for the conversion of eight patient rooms into four bariatric suites. The project has heavy components of MEP systems in this 2,400 square foot renovation. WTW Architects is the design professional on the project.

Massaro Corporation has been selected by Duquesne University to serve as the general contractor on Phase III of the bathroom renovation project in the DU Towers. This 3,300 square foot renovation will begin in May and be completed for the return of students for the Fall 2012 semester. Stantec is the architect on the project.

Franciscan University of Steubenville has selected Massaro Corporation to serve as the contractor for Phase II of renovations to Marian Hall. This is the second of three phases of renovation to the residence hall. MacLachlan Cornelius & Filoni is the architect on the project.

Massaro Corp. has been chosen by Teamsters to perform an interior renovation to their Lawrenceville Hall. This $500,000 project is slated to run from May – September of this year.

Highland Wallace, a partnership involving Walnut Capital and Massaro Properties have chosen Massaro Corp. to serve as the general contractor for the renovation to the historic Highland building in East Liberty. The scope of the project also includes renovating the nearby Wallace building as well as adding a parking garage for tenants. The two buildings will boast 127 apartments, 5,000 square feet of retail space in addition to a 182 car parking garage. TKA is serving as the Architect on this urban revitalization.

Duquesne Light awarded a design/build contract to Massaro Corp. for the build out of 13,000 square feet of office space at South Side Works.

Landau Building Company has been contracted by Heritage Valley Beaver to construct their new CVTS Vein Care Suites and Education Area. The multi-phased, 7,500 square foot project began in February of this year and is expected to be complete by the end of May 2012. Paul Slowik & Associates is the architect.

Landau Building Company is constructing a new MRI Suite at UPMC Presbyterian. This project is expected to be complete by the beginning of June 2012.

The Senator John Heinz History Center awarded a contract to Mascaro Construction for the renovation of the former American Equipment Co. warehouse on Penn Avenue in the Strip District. The project will create 45,000 square feet of climate-controlled storage for the History Center. The Design Alliance is the architect.

Uhl Construction Company has been awarded the 2011 Varco Pruden’s Hall of Fame Award for the construction of the Butler Transit Intermodal Facility, located in Butler, PA. The project was entered into the Transportation category for VP’s metal building facilities. BTA’s Intermodal Facility is the first LEED-certified transit center in PA. The facility was designed by CDM Architecture with URS serving as construction manager. Some other local companies which were involved in the project were Western PA Geothermal, Lloyd Johnson, and Fuellgraf Electric Company.

Mosites Construction is the successful contractor for the second phase of the $7 million expansion of Aerotech’s facilities in the RIDC Business Park in O’Hara Township. The project architect is RSSC Architecture.

John Deklewa & Sons is renovating the seventh through ninth floors of Chatham Center for Travelers Insurance. The architect is Hendrick Inc. from Atlanta.

REIT Management awarded A. Martini & Co. a contract for the first phase of a tenant buildout for Chevron. The project involves renovation to 37,500 square feet on two floors at the Cherrington Corporate Center in Moon Township. URS Corp. is the architect.
A. Martini & Co. was the successful contractor on the $1.3 million buildout for Forbes Regional at the Murrysville Commons. RSSC Architecture designed the project.

Folino Construction selected A. Martini as contractor for its new facility in Plum. Next Architecture is the architect for the 30,000 square foot office and warehouse.

A. Martini & Co. was awarded a contract for renovations to the Dollar Bank Waterworks branch in Fox Chapel. The architect is WTW Architects.

Heritage Valley Health System has selected A. Martini & Co. to renovate the School of Nursing Building at it Sewickley Hospital campus. Paul Slowik & Associates is the architect for the $1.8 million project.

A new $20 million office building at Southpointe Lot 12 is underway by Rycon Construction, Inc. The 155,000 square foot project, designed by Kernick Architecture, is scheduled for completion by early 2013.

A 25,000 sq. ft. industrial/office renovation is currently under construction by Rycon at II-VI, Inc. in Saxonburg. LB Design is the Architect.

Rycon Construction was awarded a contract to renovate T.J. Maxx and other miscellaneous retail stores at the Cascade Crossing Shopping Center in Sault Ste Marie, MI. The $5 million project was designed by Herschman Architects.

Rycon’s Special Projects Group was awarded three projects at the University of Pittsburgh within Posvar Hall, the Cathedral of Learning and Salk Hall.

Macy’s has awarded a contract to Rycon Special Projects Group to renovate stores in Cheektowaga, NY and Robinson Township, PA.

Rycon Special Projects Group is renovating offices at Cabot Oil & Gas, located within Penn Center West in Robinson Township. This 12,000 sq. ft. project was designed by Design 3 Architects.

UPMC recently awarded Rycon Special Projects Group two projects: A $725,000 Urgent Care renovation in Wexford and an $840,000 renovation of the Hillman Cancer Center PET Imaging Suite.

Rycon Special Projects Group has been selected for the 34,000 square foot renovation of ParenteBeard located within PNC Center. This $1.2 million project is scheduled for completion mid-summer.

PJ Dick’s Range Resources Regional Headquarters project won an award at the 19th Annual NAIOP Awards in the Build to Suit – Office Category.

The North Shore Connector, constructed by Trumbull-Obayashi, a Joint Venture was awarded the 2012 Alliant Build America Award in the Highway and Transportation New Category. The team received this award in Hawaii at the Associated General Contractors of America conference on March 15th.

A dedication ceremony took place at Wheeling Hospital’s Tower 5 Addition in Wheeling, West Virginia on April 16th, 2012. The project was constructed by the PJ Dick/Graziano Joint Venture and designed by Burt Hill Stantec.

A dedication ceremony took place at the new Thelma Lovette YMCA on April 18th. The new facility was built by PJ Dick and is located in the Hill District.

A groundbreaking ceremony took place on April 19th at Mt. Aloysius College for the construction of a new Convocation Center. PJ Dick is providing CM at Risk services for the project.

A ribbon cutting ceremony took place at California University of Pennsylvania on April 20, 2012 to mark the grand opening of new Convocation Center. PJ Dick provided CM – Agency services on the project.

Jendoco Construction has started construction on a 26,000 square foot expansion of Steel City Vacuum’s facility in Westmoreland County Industrial Park in Hempfield Township.

dck international, a dck worldwide company, was awarded a new contract from DeVry Inc., the parent company of American University of the Caribbean. dck is working with the client on their Campus
Center project to provide pre-construction services leading to a construction contract once the project scope is aligned with the budget. dck worldwide’s joint venture, dck-ecc pacific guam, has been awarded a $46.6 million contract to build an operations complex with an aircraft fire and rescue station at Marine Corps Base Hawaii at Kaneohe Bay. This contract is a task order under a previously awarded multiple award construction contract with NAVFAC Pacific.

dck north america, a dck worldwide company, is providing pre-construction services for UPMC’s 12th Floor Surgical Department Renovation project at Presbyterian Hospital in Oakland. The project involves the renovation of the executive offices, administrative offices, conference areas, corridors, and the installation of new restroom facilities.

Oakview dck, a dck worldwide company, was awarded a $1.9 million contract to build a branch for First National Bank of Omaha in Council Bluffs, Iowa. This LEED project consists of a single-story 5,000 square foot bank, including the development of the site.

Oakview dck, a dck worldwide company, was awarded its 39th Wal-Mart project—a remodel project of a 203,863 square foot store in Aberdeen, South Dakota.

Allegheny Construction Group has started construction on a new $12 million, 53-bed assisted living facility for Lutheran SeniorLife at their St. John’s Specialty Care Center in Mars, Adams Township. The architect is Burt Hill/Stantec.

Western Pennsylvania School for Blind Children selected F. J. Busse Co. for the construction of an urban trail at its North Bellefield Street campus in Oakland. The project was designed by MTR Landscape Architects.

Volpatt Construction was the successful contractor on UPMC McKeesport Hospital’s project to renovate the fourth floor of the Painton Building.

TEDCO Construction Co. was the successful contractor on the University of Pittsburgh’s $500,000 Litchfield Tower A Lobby and McCormick Blockhouse renovation.

Duquesne University awarded a contract to TEDCO Construction for renovations to the 15th and 16th floors of Duquesne Towers. Stantec is the architect on the $2 million project.

TEDCO Construction is the successful contractor for the tenant build-out of 14,300 square feet for EverPower Wind Holdings on the third floor of the Seagate Building in the Strip District. The Design Alliance is the architect.

Point Park selected TEDCO for the renovation of approximately 10,000 square feet of the fourth floor Dance Studios. The Design Alliance is the architect for the $700,000 project. TEDCO Construction also donated services for renovations to Austin’s Playroom for the Marion Lemieux Foundation.

FMS Construction was the successful bidder on the University of Pittsburgh’s Trees Hall Exercise and Fitness Education Renovation. The architect is Glance & Associates.

Eat ’n Park Hospitality Group selected FMS Construction to do renovations for a new Hello Bistro at 3605 Forbes Avenue in Oakland. The project is on schedule for a late May opening.
Massaro Corporation is proud to announce the additions to staff: Katey Andaloro as a Project Engineer to the Massaro Team. Katey earned a Bachelor of Architectural Engineering with a Concentration in Construction Management from Pennsylvania State University. Brian Chambers has joined Massaro as a Quality Assurance and Control Specialist. Brian joins Massaro from WMCC Incorporated located in Elizabeth, Pennsylvania where he gained valuable experience while working as a Project Manager; Matthew Crea, a LEED accredited professional has joined the Massaro Corporation in the capacity of Project Engineer. Mr. Crea earned a Bachelor of Arts degree from Virginia Polytechnic Institute and State University. Chris Davis has joined the team as a Project Manager. Chris has over ten years of construction management experience with fifteen total years of overall knowledge in the construction industry. He has a degree in Construction Management from Bowling Green State University; Angela Durham has joined the Massaro Corporation Team as a Project Engineer. She joins Massaro from Kvaerner North America Construction where she served in the capacity of Subcontract Manager. Angela earned a Bachelor of Science in Engineering with a minor in Mathematics from West Virginia University.

Massaro Construction Management Services, LLC is proud to announce the addition of new team member Michael Clements. Michael joins the group as a Project Engineer. He earned a Bachelor of Science in Civil & Environmental Engineering from the University of Pittsburgh. Paroma Saha joins the CM group as a Project Engineer. She earned a Bachelor of Science in Civil & Environmental Engineering from the University of Pittsburgh.

Christy Uffelman of Mascaro Construction, Ann Michalski of Joseph B. Fay Co. and Ron Kubitz of Brayman Construction Corp. have been appointed to serve three-year terms on the national HR Forum Steering Committee of the Associated General Contractors of America (AGC). The HR Forum Steering Committee consists of a small group of Human Resource Professionals representing construction contractors across the United States. The Committee provides input to AGC of America on national legislative and regulatory issues and helps with planning HR-related programs such as AGC’s annual HR Professionals Conference.

PJ Dick is pleased to welcome Ryan Wallace as a Project Engineer in the main office.
Southwestern Pennsylvania will play a central role in the United States becoming an energy independent nation. With our abundant resources in coal, nuclear technology, and natural gas, we can easily become the driving force in America’s economic recovery and energy resurgence.

But a major hurdle standing in our way is the direction of the federal bureaucracy. If the hundreds of new regulations coming out of the Environmental Protection Agency (EPA) and other federal bureaucracies are implemented, we don’t stand a fighting chance to realize the full potential of our economic future. Aimed squarely at coal, oil, and natural gas, these regulations will have no demonstrable impact on health or safety, but a devastating impact on our economy. New rules will essentially prevent us from recovering or using our local natural resources.

It goes without saying that we all want a clean, uncontaminated environment. I’ve yet to encounter anyone in Southwestern Pennsylvania who disagrees with that goal. But when we cease to use science as a measurement for achieving that goal, not only are we unable to determine if we’ve reached our goal, we cease to advance these resources for our economic benefit.

The misguided EPA coal regulations will cost the economy $184 billion and 1.44 million jobs in mining, transportation, manufacturing, and power generation. And the cost of limiting our energy resources will be passed along to consumers in their utility bills. Pennsylvania families could see monthly electric bills rise by $30 to $40.

We will experience this right here in our own backyard now that GenOn announced it would close the Elrama power plant by the end of June because of the cost of increased regulations on coal-burning electricity generation. The Elrama plant will join 56 other coal-fired electricity generating plants in the U.S. that are being forced to close because of a whole host of costly and unworkable EPA rules set to take effect over the next five years. Our region didn’t just lose those fifty plant jobs, we lost a critical component in our regional economy: affordable energy.

The added expense will come at a time when families are already paying $2,400 more per year for gasoline than they were just three years ago. Unfortunately, instead of increasing oil supplies to bring down energy prices, domestic oil production on federal lands has shrunk 13 percent in the last year even though our country has more potential oil reserves than Saudi Arabia. And instead of moving forward with the Keystone XL Pipeline project, which would flood the market with 800,000 barrels a day, the White House is blocking the project.

Even if Marcellus shale gas were able to meet higher demand in the utility and transportation sectors, its long-term viability is also threatened by federal overregulation. Right now there are no less than ten separate federal agencies — from the EPA to the Securities and Exchange Commission — working to impose new regulatory burdens on natural gas development despite Pennsylvania strengthening its own strict enforcement of clean air, land, and water standards. One national energy organization predicts an EPA natural gas regulation on well sites written to combat “global warming” will cut shale gas drilling activity by 31 to 52 percent.

Southwestern Pennsylvania has the energy resources to unleash economic prosperity and energy independence but first the federal government has to get out of the way and let it happen. That is why I signed on as a sponsor of the Regulations from the Executive in Need of Scrutiny (REINS) Act, which requires congressional approval for any rulemaking out of the executive branch substantially impacting the economy. The legislation passed the House in December, and would prevent the bureaucracy from implementing regulations or rules that would cause a major increase in costs of goods; or results in negative consequences to American employment, investment, productivity, innovation, or global competitiveness. The REINS Act will ensure any new rule is thoroughly vetted and approved by the public and those duly elected to represent them in Congress.

The message is clear every time I meet with our local Southwestern Pennsylvania job creators: energy equals jobs. But being pro-environment doesn’t mean you have to be anti-jobs. As a member of the Energy and Commerce Committee I am committed to supporting legislation that removes the regulatory barriers that could hamper our region’s energy producers and allows them to do what’s best for local families and that is to create jobs in Southwestern Pennsylvania.
Burchick Construction is a performance-driven provider of quality construction and construction management services. Our dynamic approach to management made the difference to the Carnegie Library when it undertook the challenge of upgrading the technology of its venerable main branch, moving from books and shelves to blogs and desktops. Call us today.

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