



**Pennsylvania House Republican Policy Committee
Thursday, November 16, 2017**

**Testimony of David Spigelmyer
Marcellus Shale Coalition**

Good morning Chairman Benninghoff and the distinguished members of the House Republican Policy Committee. Thank you for the opportunity to present comments to the Committee, and I certainly appreciate the continued interest in not only the upstream development of Pennsylvania's shale gas resources but also the downstream use of natural gas and natural gas liquids that are now being used to grow our economy. My name is Dave Spigelmyer, and I am honored to represent the Marcellus Shale Coalition. Members of our Coalition are responsible for producing more than 95% of the unconventional natural gas and natural gas liquids being produced here in our Commonwealth.

As you may know, the story of Pennsylvania's gas industry is a bright one. We have gone from producing roughly 25% of our Commonwealth's natural gas demand just nine short years ago in 2008, to today being the number two producer of natural gas in the United States, saving consumers millions on their gas and electric utility bills.

Today, as part of this hearing, I know you want to focus on economic development opportunities and the competitive issues that stand in the way of progress for our communities, progress for our industry and progress for our state and nation. So, I will jump right in:

First, I would be remiss if I failed to shine a light on the Governor's announcement made just yesterday (November 15, 2017), announcing the funding of 227 new projects from the Commonwealth Finance Authority (CFA)—projects funded from the tax collections of Pennsylvania's unique Impact Tax—a tax that has generated more than \$1.2 Billion of tax proceeds and has assisted all 67 counties of the Commonwealth. Governor Wolf's announcement just yesterday uses the tax proceeds of the Impact Tax, passed in 2012, to enhance environmental protection, revitalize communities and improve transportation networks. The funding announced yesterday will support 112 transportation-related projects in 36 counties. It will fund 12 watershed protection projects and provide upgrades for 4 sewage treatment plants. These investments provide another \$10 Million for greenways and trails and an additional \$3 million for flood control projects. I bring this to your attention because we remain at loggerheads over claims that the industry does not pay a tax. I know most on this committee agree that we pay a tax, some may believe it would be better allocated to the general fund or would like it to bring in more revenue, but claims that this industry does not pay a tax is factually incorrect and disingenuous. The most recent collection under Act 13 was more than \$173 Million and despite its unique structure, more than \$1.2 Billion has been collected since April of 2012. The Impact Tax is paid on top of all of Pennsylvania's other taxes and has provided extraordinary funding support to county and local governments. The tax also provides Marcellus

legacy fund projects distributed through the CFA, as I noted in my testimony, and provides millions in funding for state agencies, including a \$6 Million allocation to the Department of Environmental Protection.

And as I have mentioned in previous testimony before this Committee, in 2016, Pennsylvania's unique Impact Tax collected more revenue than the severance taxes collections of WV, OH, AR and CO combined.

As we reflect on the misguided rhetoric that abounds in relation to the severance tax issue, comments made by some in the legislature and many in the Administration that "the gas is here, where else are they going to go," shows a complete lack of understanding of our industry and a disconnect with general business principles on how capital is allocated and spent. The rhetoric is dangerous and paints a picture that Pennsylvania may not be "open for business" as some may claim.

In 2011, Pennsylvania had 117 active drilling rigs working throughout this shale play in the Commonwealth. Today, we have 31 active rigs. The Permian Basin in west Texas and New Mexico has more than 350 active drilling rigs today pursuing natural gas and oil. The Permian is competing for the same capital as we are here in the Commonwealth—as are the shale plays in Ohio, West Virginia, Louisiana and in the Baakin (primarily North Dakota).

As we compete for capital, keep in mind that Ohio and West Virginia typically turn drilling and earth disturbance permits within a month to 45 days. While we have experienced some slight improvement in the Commonwealth, the Southwest region of DEP has issued 44 ESCGP-2 (earth disturbance) permits in 2017 with an average turnaround time of 262 days. Since June 17, 2017—12 additional ESCGP-2 permits have been issued from this region, averaging less than one per week. Well permits, which are somewhat standard in their application, have averaged 133 days in the Southwest region from October of 2016 to October of 2017. I think most know that MSC sat silent on this issue long enough. Those delays and lack of certainty in permitting are costing us capital allocations and costing us jobs. To be fair, both the Northwest and Northcentral regions of the DEP are far more predictable but still use roughly double the time allocated under Pennsylvania's "permit guarantee" initiative for well permit review. Average turnaround time in those regions for a well permit has been roughly 90 days when the "permit guarantee" initiative that accompanied a dramatic increase in permit fees prescribed turnaround times of 45 review days.

As for the economic development opportunities emerging, I would like to complete my testimony this morning by identifying opportunities and detailing several benefits of this shale play.

1. As many of you are now aware, today, Pennsylvania enjoys the most affordable energy on the planet made possible from our natural gas developments. Consumer electric and natural gas prices have dropped dramatically due to the robust production of our in-state natural gas drilling and pipeline development efforts. Purchased natural gas utility prices for your constituents are anywhere from 54 to 81 percent less than what they were in the



winter of 2008. According to IHS, these consumer savings are providing an additional \$1200 annually of disposable income to utility consumers in the Commonwealth.

2. In July of 2017, a fact-based analysis was released by McKinsey and Company entitled: *“Forge the Future, Pennsylvania’s Path to an Advanced Energy Enabled Economy.”* The study details the opportunities presented to Pennsylvania from this world-class energy resource. The study suggests the following:
 - a. Within the next decade, Pennsylvania could achieve \$60 Billion of GDP growth (+/- 6.9%) by pursuing targeted growth actions.
 - b. The Commonwealth could add more than 100,000 jobs by 2025.
 - c. We could increase gas demand by +/- 4.5 TCF by 2025, which would lead to enormous investments in upstream development and supply chain/small business growth.
 - d. Pennsylvania could achieve an increase of \$2 to \$3 Billion of added new state revenue, supported by expansion of the state’s GDP.
3. Shell: During 2017, Royal Dutch Shell announced approval to develop the first ethane cracker/petrochemical complex in the Appalachian Basin. This Beaver County, Pennsylvania development will not only add 6000 construction jobs, and 600 permanent jobs, but will be a catalyst for plastics manufacturing in the region.
4. In October, this Committee visited the Marcus Hook petrochemical complex in southeast Pennsylvania. Not long ago, Marcus Hook was slated to be closed, employees laid off and the plant decommissioned. Development of ethane, propane, butane and other natural gas liquids prevalent in the under-pressured areas of the Marcellus, coupled with the revitalization of major pipeline delivery networks into Marcus Hook, have positioned Philadelphia to attract “energy hub” status for the northeast region of the United States. With the furthest inland port, Philadelphia today is poised to be a world leader in transporting vital supplies of ethane, butane and propane to national and international markets for home heating, agricultural use, plastics and chemical manufacturing.

In closing, I would remind the Committee of the role natural gas plays in our everyday lives. While we rely on natural gas to heat our homes, cook our food, dry our clothes, and heat our hot water, we often fail to realize that natural gas is used in the manufacturing of nearly every single consumer product that we touch today. All steel, glass, plastics, chemicals, fertilizers, powdered metals, pharmaceutical medications, and nearly one in three electronics that are delivered to consumers every day are developed through the use of natural gas. Natural gas is a vital resource, is found in abundance here in the Commonwealth and presents an enormous opportunity for job growth in our state. Your work and the work of your colleagues is important as we work to attract investment and opportunities for all citizens of Pennsylvania.

I sincerely thank you for allowing me to testify before you this morning.

David J. Spigelmyer
President



House Republican Policy Committee Support Slides

November 16, 2017

**David J. Spigelmyer
President
Marcellus Shale Coalition**

Our Membership

- 200+ diverse members
- Producers, midstream and suppliers

Our Focus

- Long-term development
- End use opportunities
- Addressing landowner and public issues
- Maximizing benefits to secure our region's energy future

More than 95% of the natural gas in Pennsylvania is produced by MSC member companies.

Associate Members are an integral part of the MSC and the industry's robust supply chain.

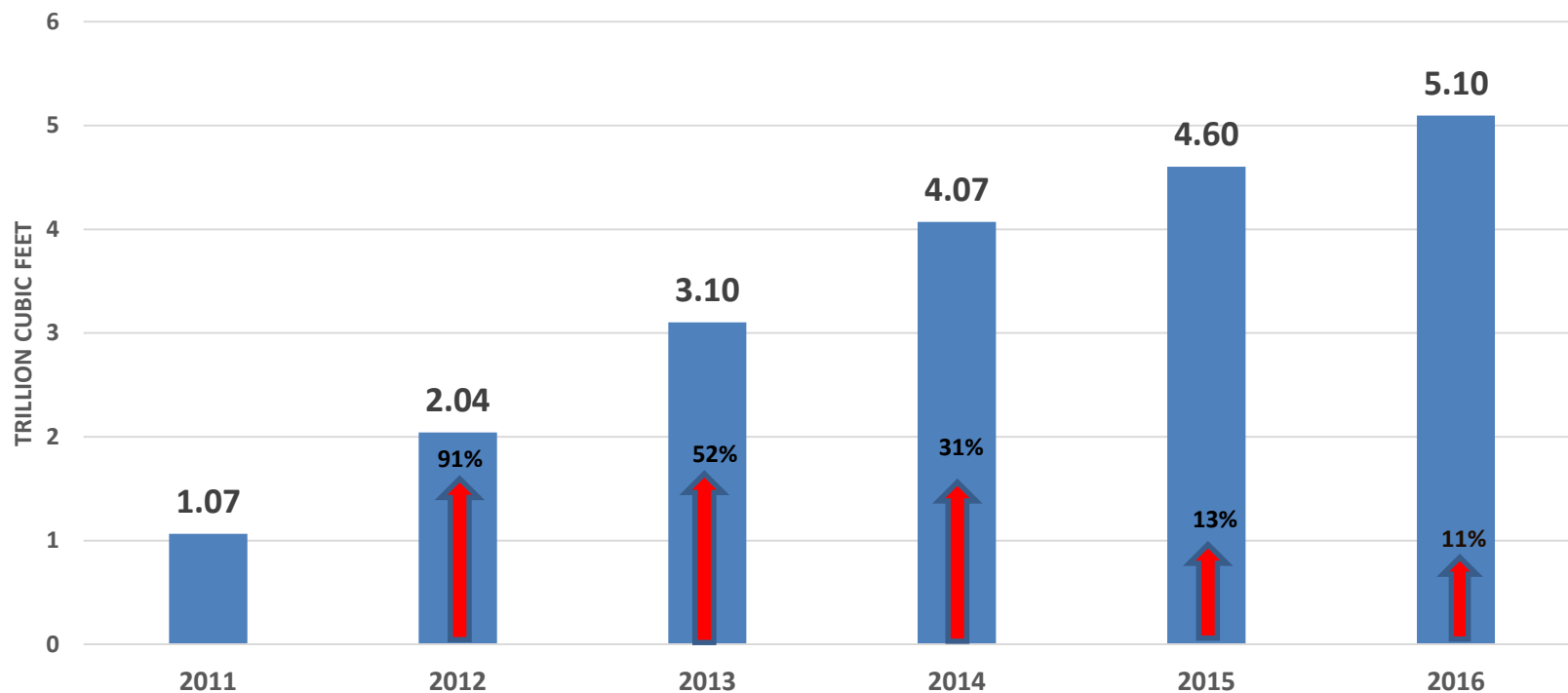
The MSC Board of Directors consists of 34 major producer and midstream companies in the Appalachian Basin.

Pennsylvania: A World-Class Player in Shale Gas Production

- 💧 2nd largest natural gas producer in U.S.
- 💧 9,923 unconventional wells*
 - 564 shut in
 - 792 drilling not completed
 - 638 inactive
- 💧 Nearly 7,880 producing wells
- 💧 5.1 Trillion Cubic Feet (2016)
- 💧 19.2% of total U.S. natural gas production
- 💧 33 of 67 counties with at least 1 producing well

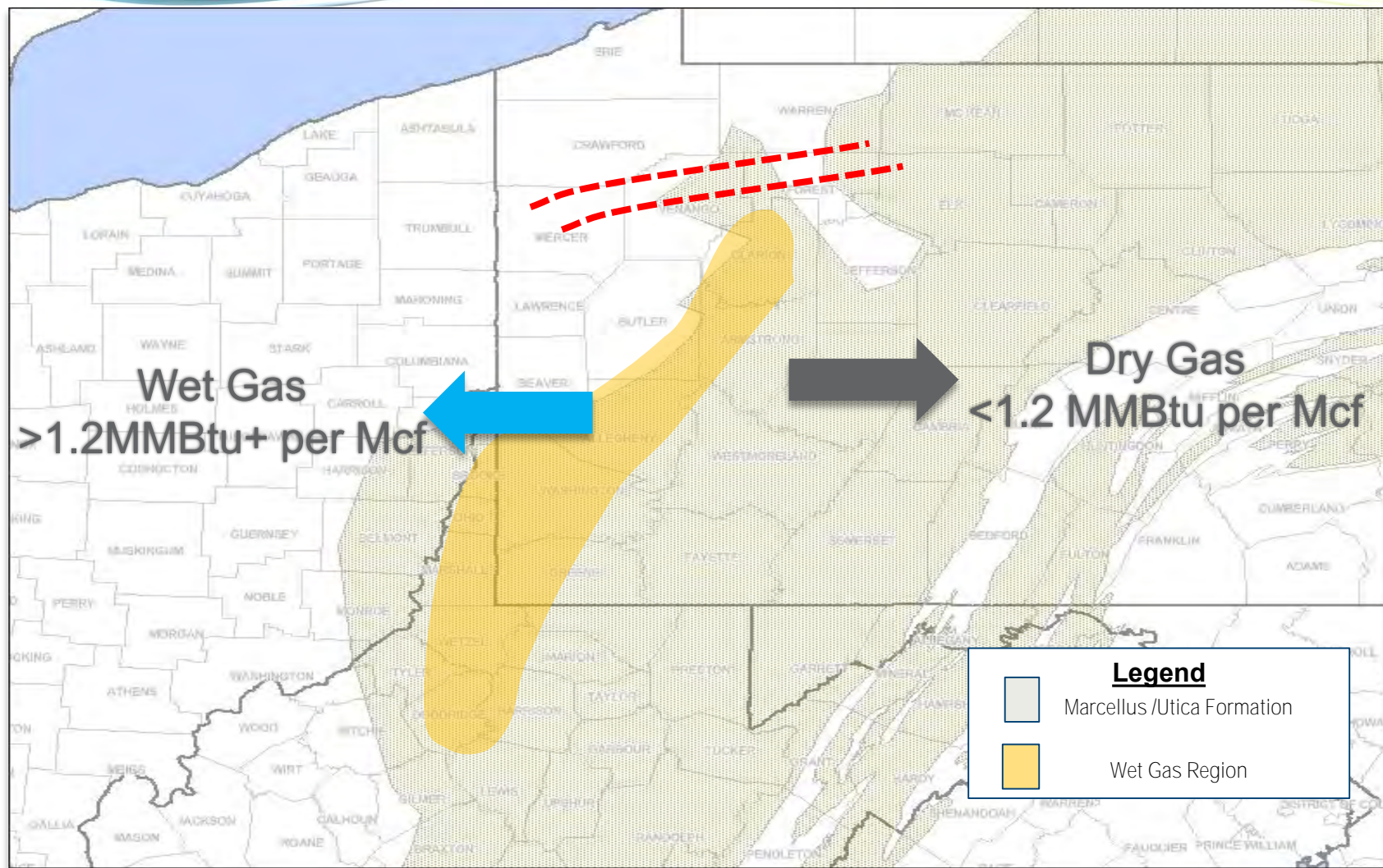
Fueling the Nation

PA Unconventional Shale Gas Production 2011 - 2016



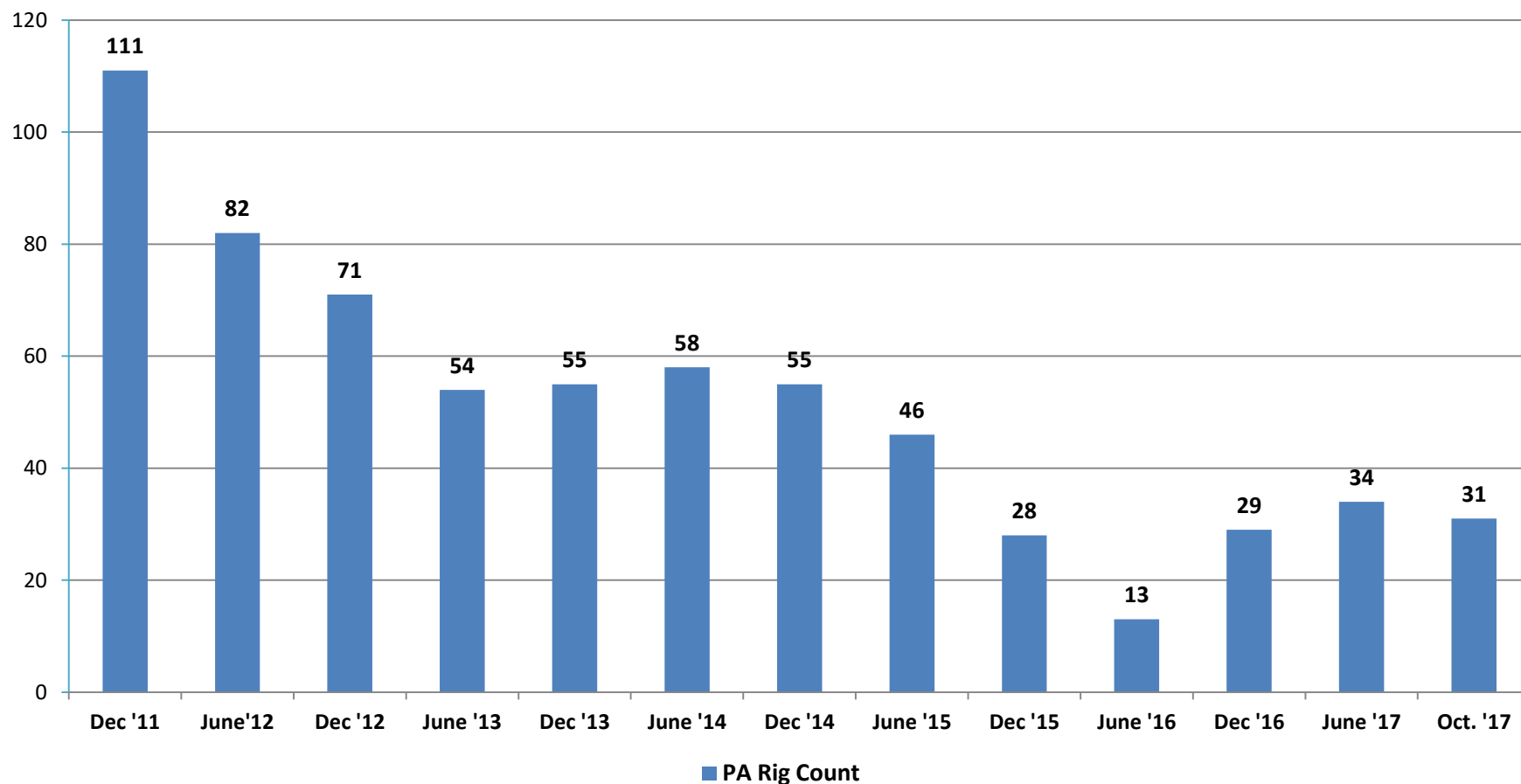
Source: Marcellus Shale Coalition & PA DEP

Feedstock: “Wet Gas” Region



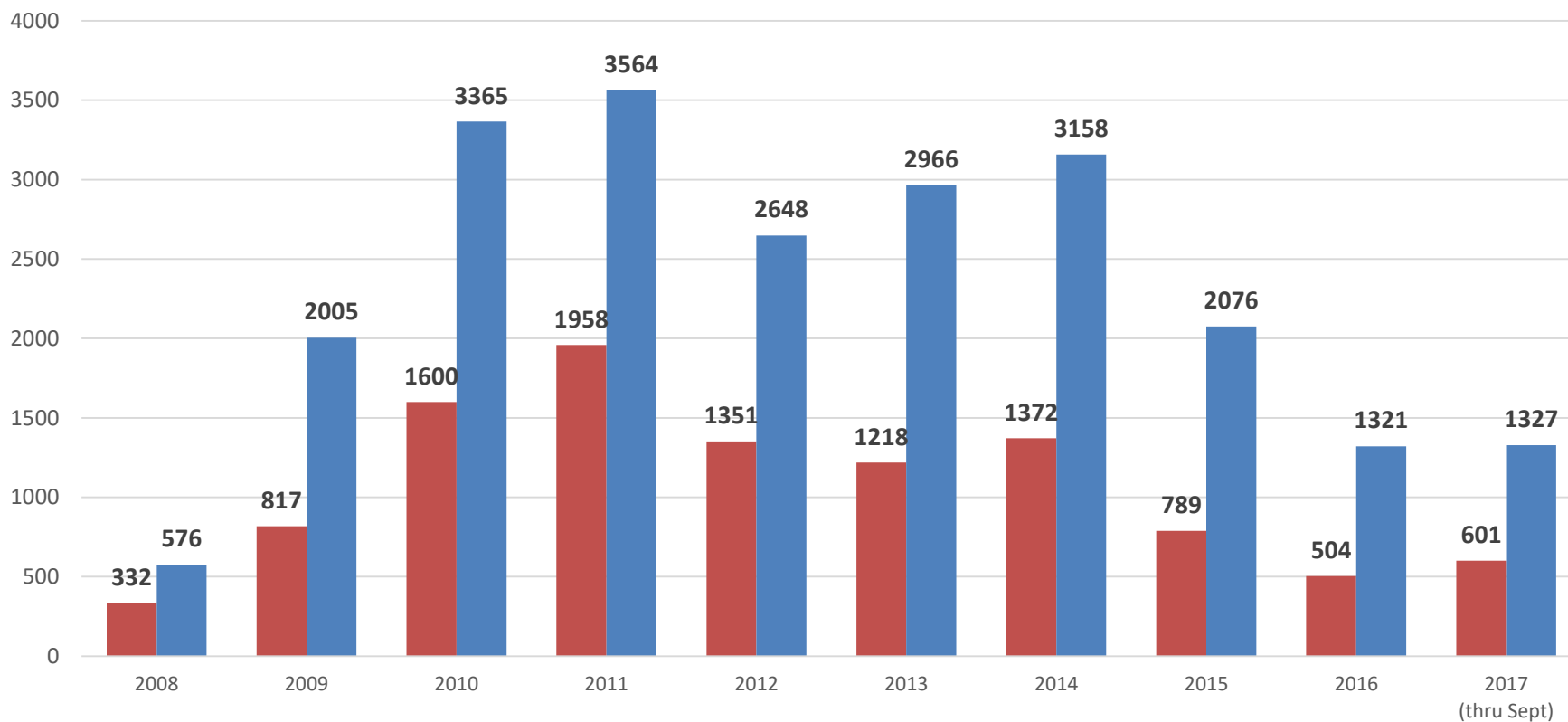
Drilling Activity in PA

PA Rig Count 2011-2017



Drilling Activity in PA

Unconventional Well Activity 2008-2017



Source: PA DEP Well Permit & Spud Data Report

■ Spud ■ Permitted

Marcellus Shale Coalition

Primary PA Interconnect Points

November Bid Week Pricing (Inside FERC's Gas Market Report)

Tennessee Zone 4

\$1.35/MMBTU

Leidy Receipts

\$1.39/MMBTU

Dominion Appalachia

\$1.57/MMBTU

Average Gas Sales \$

\$1.43/MMBTU

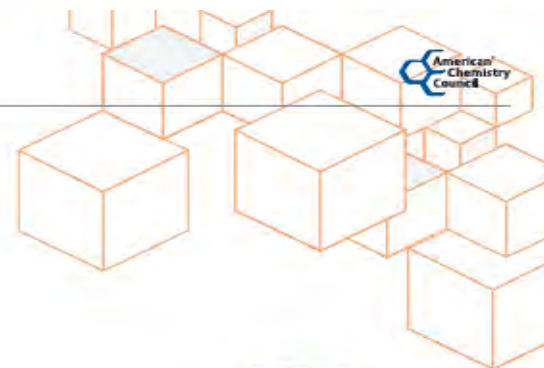
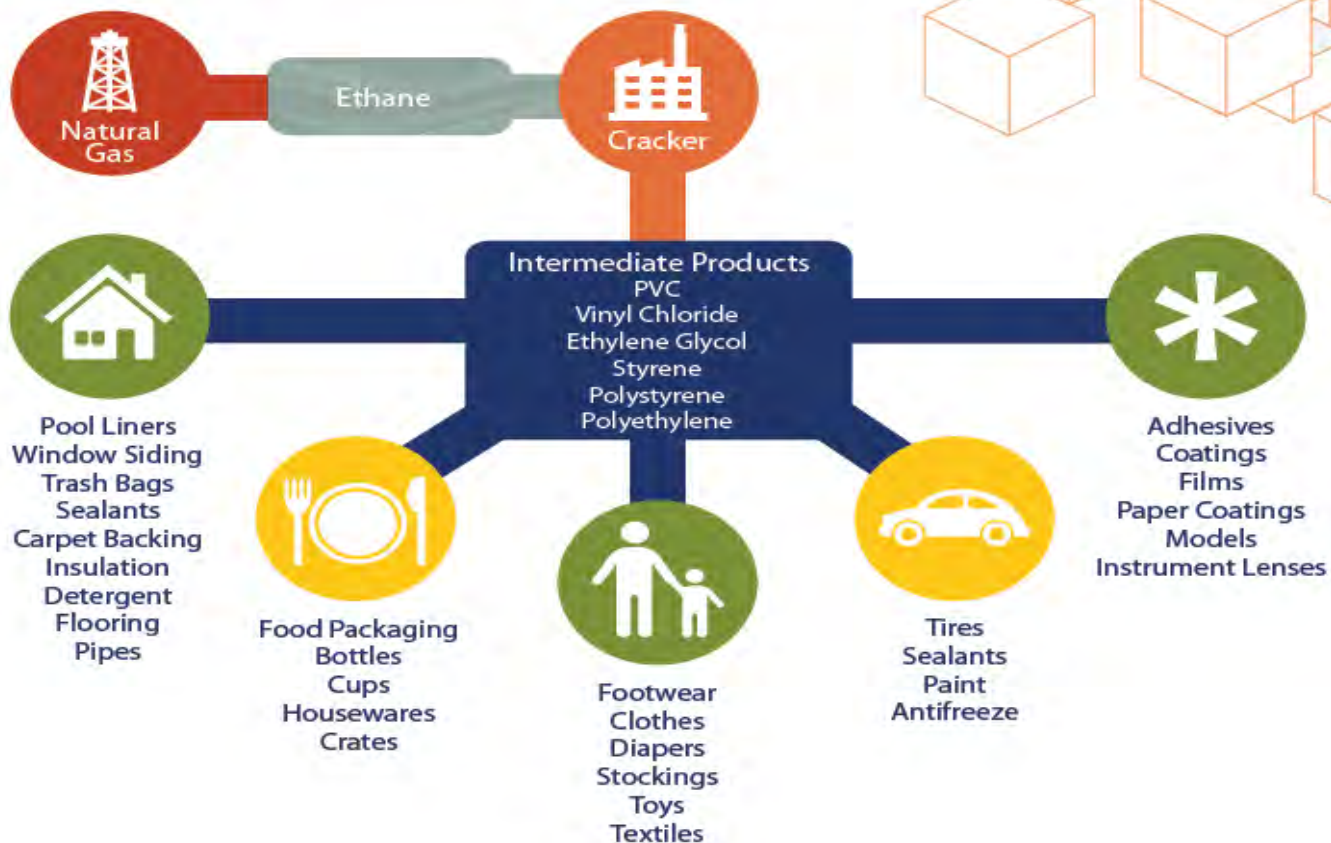
Average Gathering of \$0.80/ MMBTU (Independent Fiscal Office)

Market Opportunities

- 💧 Promote localized demand
- 💧 Electricity generation, heating
- 💧 Combined heat and power applications
- 💧 Light and heavy duty transportation applications
- 💧 Feedstock for industries and other liquids use
 - Rebirth of manufacturing
- 💧 Exports

The Ethane Factor

ETHYLENE CHAIN



Benefiting Consumers

Lower Prices = Customer Savings

- 💧 Wholesale electric prices down 41% since 2008
- 💧 Natural gas prices for end-use customers down 57% - 81% since 2008
- 💧 Average annual savings > \$1,200 per household

Benefiting Consumers

Lower Prices = Customer Savings 2008 - 2016

| Utility | PGC Rate / mcf | | % Change | Customer Savings |
|-----------|----------------|--------|-----------|------------------|
| | 2008* | 2016* | 2008-2016 | Annual |
| PECO | \$11.10 | \$3.41 | - 69% | \$1,384 |
| NFG | \$10.34 | \$1.92 | - 81% | \$1,516 |
| PGW | \$10.58 | \$3.22 | - 70% | \$1,325 |
| Columbia | \$10.25 | \$3.64 | - 64% | \$1,190 |
| Equitable | \$11.81 | \$2.72 | - 77% | \$1,636 |
| UGI | \$11.79 | \$5.06 | - 57% | \$1,211 |
| UGI Penn | \$10.66 | \$3.72 | - 65% | \$1,249 |
| Peoples | \$9.53 | \$2.72 | - 71% | \$1,226 |

* 1st Quarter 2008 & PUC-approved rate for 2016

* Residential heating customer using 15 mcf/month

Benefiting PA Communities

Impact Fee Revenues to Date

| Year Distributed | Amount |
|------------------|------------------------|
| 2012 | \$204.2 M |
| 2013 | \$202.5 M |
| 2014 | \$225.8 M |
| 2015 | \$223.5 M |
| 2016 | \$187.7 M |
| 2017 | \$173.3 M |
| TOTAL: | \$1.217 Billion |

Impact Fee by County

| County | Impact Fee Totals |
|------------|-------------------|
| Allegheny | \$21 Million |
| Armstrong | \$9 Million |
| Beaver | \$4 Million |
| Butler | \$26.4 Million |
| Clarion | \$2 Million |
| Clearfield | \$12.6 Million |
| Greene | \$60.9 Million |
| Indiana | \$5.3 Million |
| Jefferson | \$7.6 Million |
| Lawrence | \$4.2 Million |
| Mercer | \$3.5 Million |
| Washington | \$90 Million |

Thank you!

Marcelluscoalition.org

Governor Wolf Announces Approval for 227 Community Improvement, Transportation, and Environmental Protection Projects

November 14, 2017

Harrisburg, PA – Today, Governor Tom Wolf announced 227 new project approvals made through the Commonwealth Financing Authority (CFA): 115 projects using funds collected from the impact fee on unconventional gas wells in the Marcellus Shale and 112 Multimodal Transportation Fund (MTF) projects in support of community revitalization, transportation improvement and environmental protection.

“Part of our responsibility for drilling in the Marcellus Shale is to make sure we use a portion of the revenue collected from impact fees to protect the areas and communities where the drilling takes place,” Governor Wolf said. “The Multimodal Transportation Fund and Act 13 projects approved during today’s CFA meeting help us remain good stewards of the environment while we provide targeted improvement to sidewalks, streets, intersections, bridges, recreational trails, and other assets to improve the safety and quality of life for all Pennsylvanians.”

The MTF was established to ensure the availability of safe and reliable transportation access in communities throughout the commonwealth. The 112 MTF projects approved today are in 36 counties: Allegheny, Beaver, Berks, Bucks, Butler, Cambria, Carbon, Centre, Chester, Clarion, Clearfield, Clinton, Cumberland, Delaware, Franklin, Indiana, Jefferson, Lackawanna, Lancaster, Lawrence, Lehigh, Luzerne, Lycoming, McKean, Mifflin, Monroe, Montgomery, Montour, Northampton, Northumberland, Philadelphia, Pike, Somerset, Washington, Westmoreland, and York. The total funding amount was \$59 million.

A complete list of Multimodal Transportation Fund projects approved at today’s CFA meeting can be found [here](#).

The Marcellus Legacy Fund was created by Act 13 of 2012 to provide for the distribution of unconventional gas well impact fees to counties, municipalities, and commonwealth agencies. The act stipulates that a portion of the fee revenue will be transferred to the CFA for statewide initiatives that will include abandoned mine drainage abatement, abandoned well plugging, sewage treatment, greenways, trails and recreation, baseline water quality data, watershed restoration, and flood control.

The 115 Act 13 projects approved today are in 43 counties: Allegheny, Armstrong, Beaver, Bedford, Berks, Bucks, Butler, Cambria, Cameron, Carbon, Centre, Chester, Clarion, Columbia, Dauphin, Delaware, Elk, Fayette, Franklin, Indiana, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, McKean, Mercer, Mifflin, Monroe, Montgomery, Northampton, Northumberland, Perry, Philadelphia, Pike, Potter, Schuylkill,

Susquehanna, Union, Venango, Washington, Wayne, and Westmoreland. The total funding amount was \$15.7 million.

The projects are designated for specific initiatives as follows:

- Flood Mitigation: 13 projects approved; \$2,994,521 total
- Greenways, Trails and Recreation: 83 projects approved; \$9,992,829 total
- Orphan or Abandoned Well Plugging: Three projects approved; \$657,503 total
- Sewage Facilities: Four projects approved; \$125,147 total
- Watershed Restoration and Protection: 12 projects approved; \$1,930,000 total

A complete list of Act 13 projects approved at today's CFA meeting can be [found here](#). For more information about the Commonwealth Financing Authority or DCED, visit dced.pa.gov.