

COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
Marcellus Shale En Banc Hearing  
Docket No. I-2010-2163461

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The mission of the Energy Institute is to unify policymakers, regulators, business leaders, and the American public behind a common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Commission as it considers critical issues surrounding the Marcellus shale development.

As this Commission well appreciates, the energy policy decisions we make in the next few years will largely determine who we are as a nation for decades to come. We need to approach this thoughtfully and be crystal clear about the tradeoffs, timelines and costs to the American economy. We certainly don't want to find our economy in a worse situation than it is today.

Underpinning America's national security, economic prosperity and quality of life is an available, affordable, and reliable supply of energy. Recent events—including the Washington state refinery explosion, the West Virginia coal mine explosion, and the Gulf of Mexico oil spill—have put the value of energy into stark relief. We must address our nation's serious energy challenges urgently, thoughtfully, and realistically. We must pursue a smooth and realistic transition to a lower carbon future that includes a diverse portfolio of energy sources and accelerated development and deployment of the necessary technologies.

I think it is critical to take stock of our current energy disposition - the Energy Information Administration's (EIA) most recent forecast estimates U.S. energy demand will increase by as much as 33% between now and 2035, and electricity demand will increase by as much as 44%.

There is no question that economic challenges and job security top the list of America's concerns. However, Americans also recognize the critical role that energy plays in a strong economy and the benefits of using homegrown resources such as natural gas. For the private sector to lead the way, a comprehensive energy policy must be in place that creates a predictable regulatory framework, welcomes investment, and encourages the use of all of our vast energy resources. By establishing an environment that incentivizes investment, we can stimulate economic growth and enhance our energy security.

#### **Energy: A Critical Component**

Everyone agrees that to solve our nation's serious energy challenges, there must be a thoughtful, predictable and realistic transition to a lower-carbon future. However, we also must acknowledge that traditional fossil fuels will play a major role in meeting our energy needs for the foreseeable future. Thus, we should not rule out the value of our vast domestic resources such as natural gas. The Energy Institute has put forward a commonsense energy strategy and made specific recommendations that will put America on the path to energy security, a critical component of a robust economy. A central piece of this strategy requires us to not only diversify our energy mix, but also to use *all* of our proven domestic resources of natural gas, coal and oil and remove barriers to their production.

Natural Gas is a plentiful, domestically produced, clean burning fuel that heats and powers **over 60 million U.S. homes**. Natural gas is also used at home for cooking, by utilities to generate electricity for consumers and businesses, and by industry as the main component in many items we use every day. Natural gas is an important component of a common sense energy strategy that promotes a diverse, secure, prosperous, and clean energy future. As the cleanest-burning fossil fuel we have, natural gas is the foundation of a bridge to a lower-carbon future. Natural gas is used not only as a residential fuel source, but also as a raw material to manufacture products that Americans use every day, such as clothing, plastics, sports equipment, pharmaceuticals and medical equipment. Many industrial facilities, like manufacturing plants, use natural gas to create process heat to power their machines and physical plants. In addition, it can be used as a clean fuel alternative for cars and trucks. Natural gas is also used to generate critical backup power for renewable energy sources such as solar and wind.

The United States consumed 23.3 trillion cubic feet (Tcf) of natural gas in 2008, and nearly 88 percent was produced domestically. In June 2009, the Potential Gas Committee released a study that concluded that the United States has 2,074 Tcf of estimated natural gas reserves—enough to meet America's natural gas needs for more than 110 years at current consumption rates. Reserve figures have increased significantly during the past five years with the discovery of large shale deposits across the country and technological advances in processes such as hydraulic fracturing, which makes recovery of these resources commercially viable. In fact, according to the Energy Information Administration, from 2007 to 2008 shale gas production in the lower 48 states increased almost 71 percent, growing from 1,184 Tcf to 2,022 Tcf.

#### **'Tough Decisions' Surrounding Energy**

Last month Doug Elmendorf, Director of the Congressional Budget Office (CBO) highlighted the results of a CBO report that forecasts an increase in the public debt from \$7.5 trillion at the end of 2009 to \$20.3 trillion at the end of 2020 if President Obama's Fiscal Year 2011 budget were to be implemented. CBO also found that over the same period, the debt would rise from 53% to 90% of gross domestic product. The last time the percentage was that high was right after World War II.

The federal government, like many state governments, is in need of revenue. But there is a right way and a wrong way to generate revenue. As an example, the federal government's proposed FY2011 budget will impose \$80 billion in new taxes and fees on current and future natural gas and oil production which will actually increase the price of domestic energy and increase our dependence on imported sources of energy. Increasing the costs of producing natural gas and oil through arbitrary taxes and fees will increase imports, increase costs to consumers and discourage domestic production and the jobs supporting it. Increasing the cost of doing business domestically creates an inherent disincentive for companies to expand—or even maintain—current production levels. As the cost of producing natural gas rises, domestic production will decrease as companies shift resources to stay competitive globally, and Americans will pay the ultimate price—more for natural gas and its products at a time when they can least afford to do so.

The economic benefits of putting our domestic resources to work for us are undeniable. In 2008 alone, natural gas production supported nearly 3 million jobs and contributed \$385 billion to our nation's economy. If natural gas and oil companies reduce domestic production as a result of increased costs or unduly restricted exploration and production, much-needed jobs will disappear. This contradictory rationale makes no sense while the federal and state governments are spending hundreds of billions in taxpayer dollars to create and retain jobs.

The National Association of Regulatory Utility Commissioners and the Energy Institute commissioned a study to assess the social, economic and environmental effects of not developing our domestic oil and gas resources. The study concludes that our natural gas resource base is 16 % greater than previously estimated—enough to last nearly 90 years at the current rate of usage. While much of this gas is found on private lands, as in the Marcellus shale, a significant portion is found on federal lands that have been under actual or de facto moratoria for decades.

The study focuses on the impacts of not developing the federal resources under de facto moratorium and the findings paint a bleak picture: Between 2009 and 2030, cumulative natural gas production is projected to decrease by 10 percent, natural gas prices will increase by 28 percent, and the cumulative net present value of consumer purchases of electricity and natural gas will increase by \$325 billion. Meanwhile, U.S. GDP will fall by \$2.36 trillion. Clearly, the development of natural gas and oil resources is not only essential to our energy security, but is also critical to our nation's economic prosperity. While the plentiful resources on private lands like the Marcellus shale are not subject to any federal moratoria, this study paints a stark picture of the economic and energy security benefits of policies designed to safely produce our abundant natural gas resources.

The study and executive summary can be found at <http://www.naruc.org/resources.cfm?p=353>.

#### **Moving Forward**

The private sector has been—and will continue to be—the engine that drives America's economic recovery, but it is the responsibility of state and federal governments to provide an investment and

regulatory environment conducive to making capital investments. The oil and natural gas industry alone supports 9.2 million jobs across the country and has the potential to employ hundreds of thousands more if policies that increase access to our domestic resources are implemented. If natural gas companies are not able to operate and expand, jobs and revenue will be lost and our energy security will further deteriorate. The right policies and regulations to ensure America has the energy it needs to power its economic recovery are required.