

**Testimony to the Senate Majority Policy Committee
Marcellus Shale and its Impact on Pennsylvania
Tuesday, November 18, 2008**

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Good morning. My name is Kathryn Klaber, Executive Vice President of the Allegheny Conference on Community Development and Executive Director of the Pennsylvania Economy League of Southwestern Pennsylvania. Mr. Chairman, thank you very much for giving me the opportunity to testify before the Senate Majority Policy Committee today.

As you may know, the Allegheny Conference on Community Development and its affiliates – the Greater Pittsburgh Chamber of Commerce, the Pennsylvania Economy League of Southwestern Pennsylvania, and the Pittsburgh Regional Alliance – work in collaboration with public and private sector partners to stimulate economic growth and enhance the quality of life in southwestern Pennsylvania.

As we look at those sectors of the economy that currently fuel economic growth in the 10-county Pittsburgh region and have the potential to do so in the future, the Allegheny Conference has identified the energy sector as a top priority for continued growth.

The Economy League – at the request of the Marcellus Shale Committee - has recently completed a study of the economic impact of the oil and gas industry in our Commonwealth.

That report was released on November 17th, 2008 and is available at:

www.alleghenyconference.org/PEL/Reports.asp.

As we have heard today, the oil and gas industry is a vital part of our economy – and has been for 150 years – starting with the very first commercial oil well that was drilled near Titusville in 1859. Today's oil and gas industry touches all corners of the Commonwealth and has a presence in nearly every one of our 67 counties.

I'd like to share with you today the key findings of our economic impact study, which was done using 2007 as a baseline year:

- **The oil and gas industry generates in excess of \$7 billion in economic output annually** resulting from the direct employment, compensation and output of the industry and from the impacts of the supply and distribution chain. This total includes \$4.5 billion in direct economic impact linked to drilling, extraction and support activities.
- **The industry's economic impact includes the employment of more than 26,500 individuals in full and part-time jobs.** There are 10,538 jobs directly, and a further 16,021 through indirect and induced effects. For every oil and gas industry job, an additional 1.52 full and part-time jobs are generated in Pennsylvania. Indirect or induced employment, related to oil and gas, includes industries in the broader economy.
- **Employee compensation in the industry is nearly \$1 billion annually.** Jobs in Pennsylvania's oil and gas industry are well paying with an average annual compensation of \$63,000; \$20,000 higher than the average annual compensation of \$43,000 for all private sector employment in the state. Compensation also generates an additional \$1.88 in spending for every dollar paid to employees. Employees' purchases of goods and services impact the broader economy.
- **Other investor and property owner income from the industry generates nearly \$2 billion annually** in payments for rents received on properties, royalties from contracts, dividends paid by corporations and business profits. This impact includes payments of more than \$200 million annually to Pennsylvania landowners through royalty payments.
- **Activity in the Oil and Gas industry is growing.** Pennsylvania ranks third for the number of active wells, with approximately 79,000 in the state. From 2000 to 2007, the number of wells drilled tripled (1,354 wells in 2000 vs. 4,148 wells in 2007). Based on a sampling of well cost data provided to the Economy League, this translates into estimated annual spending of \$1.2 billion across the state on new drilling activity alone.

There is no question that the established oil and gas contributes significantly to our state's economy. With tremendous new opportunities brought about by the Marcellus Shale play we have even more economic growth to harness for Pennsylvania businesses and residents.

Now, a perfect storm of advanced technology and demand for energy means that this natural gas reserve can create substantial positive economic impact for Pennsylvania. And, as part of the state's total energy portfolio, it can advance Pennsylvania's and the nation's energy independence. But I caution that this development should not come at the expense of our existing industry in Pennsylvania.

It is clear that Pennsylvania needs a diverse energy portfolio to ensure competitive prices for energy and electricity. We must develop a comprehensive energy policy that provides the lowest reasonable energy costs for all customers, keeps jobs in Pennsylvania, brings new jobs to the state, is environmentally responsible, and moves Pennsylvania toward energy independence.

As we seek to promote both Pennsylvania energy sources and the use of Pennsylvania's natural resources, our oil and gas industry is an integral part of this comprehensive energy policy.

There are several key components that must be part of a comprehensive policy for our oil and gas resources including:

- A rational tax policy that does not ignore the debilitating impacts that new taxes can have on the survival of existing businesses, including many small well operators in the state. Ill-informed tax policy around the Marcellus Shale development, especially if accompanied by high regulatory hurdles, can discourage capital deployment here and redirect it to other states;
- A streamlined permitting process that is environmentally responsible and does not create unnecessary barriers to the industry. The permitting process must be transparent,

predictable and timely so that companies can plan to make their investments in Pennsylvania rather than in other states that are competing for their equipment and labor;

- Access to water supply and advanced technology for treatment and disposal;
- Regulatory standards that are up to date with technology; and
- Land use policies that are clear and consistent.

I commend the Senate Majority Policy Committee for holding this hearing on the wide- ranging and far-reaching impacts of the Marcellus Shale development, and for realizing that the dialogue on these issues must continue. Thank you and I am happy to answer your questions.