

**Testimony of Scott Rotruck**  
**Vice President of Corporate Development for Chesapeake Energy**  
**Senate Republican Policy Committee Hearing**  
**Marcellus Shale**  
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Good afternoon Chairman Corman and members of the Policy Committee. My name is Scott Rotruck and I am Vice President for Corporate Development for Chesapeake Energy. I'm pleased to be here today to speak generally about natural gas and its future to our economy and environment.

First, let me provide you with a brief background on Chesapeake Energy. Chesapeake is a public company listed on the New York Stock Exchange. Founded in 1989, Chesapeake has grown to become the largest natural gas producer in the United States, producing about 4% of America's natural gas and drilling approximately 9% of all the new gas wells in the country.

In the Marcellus Shale, Chesapeake is one of the largest leaseholders with approximately 2.7 million gross acres and 1.8 million net acres. Our commitment to developing the Marcellus Shale is demonstrated by our more than \$1 billion in investment that we've made in Pennsylvania since 2006. We have offices in Mount Morris, Towanda and will expand in NE Pennsylvania as our operational footprint increases.

In addition, whenever possible we work with local suppliers, and we own a Pennsylvania drilling operation, G.D. Yost & Sons Drilling, based in Mt Morris, PA – the same company responsible for extracting the miners in Quecreek a few years ago. Chesapeake currently has 134 active rigs in the U.S., including six in Appalachia – 3 of which are Marcellus. (2 in WV and 1 in PA.) Depending on the rate of permitting, we could drill 50-75 wells in Pennsylvania in the next year.

At Chesapeake Energy, we believe natural gas is the answer to a host of policy challenges facing the United States. In particular, the development of natural gas formations across the country will help free us from the high prices of imported oil, thereby improving our economy, enhancing national security and helping the environment. Natural gas is the most practical, near-term solution to the world's challenges of generating more energy and producing less pollution. In short, natural gas is American, it is abundant, it is clean, and it is affordable. It is American!

Today, the U.S. consumes about 63 billion cubic feet of natural gas per day. In energy BTU equivalency terms, that's 10.5 million barrels of oil, or about half of the amount of oil that the U.S. consumes in a day. Of the 63 billion cubic feet per day of natural gas consumption, 98.5% of it comes from North America alone, of which 86% comes directly from within our country's borders. Contrast that with oil, where about 41% comes from North America and only about 27% comes from U.S. sources.

It is Abundant!

The American Clean Skies Foundation recently commissioned Navigant Consulting to assess North American natural gas production. That study found that because of the development of new technologies that allow for the extraction of natural gas from “unconventional” sources, our nation’s reserves of natural gas extend 118 years at 2007 production levels. This estimate far-exceeds previous estimates because it takes into account the new sources of natural gas that were previously unknown and inaccessible, such as shale formations like the Marcellus Shale in Pennsylvania. And, as the technology continues to develop, it is likely additional resources will become available, extending these reserves beyond 118 years.

The U.S. contains at least 22 shale basins spread out over more than 20 states. The Marcellus Shale, which runs through Pennsylvania, covers 54,000 square miles and some 20 counties altogether. It is estimated to contain a mean technically recoverable gas level of 34.2 trillion cubic feet with a maximum recoverable of up to 262 trillion cubic feet – or better said, enough natural gas to feed the U.S. appetite for more than 10 years.

It is Clean!

From extraction of the gas from the earth to usage by consumers, natural gas has a relatively minimal impact on our environment. New technologies in drilling allow for a relatively small footprint on the land. Pad drilling, for example, allows for multiple wells to be drilled directionally from one surface location, minimizing the amount of acreage utilized for extraction.

At Chesapeake Energy, we pride ourselves in utilizing the newest drilling technologies, the most advanced noise control systems and the most stringent safety and quality controls ever seen in the exploration and production industry.

When consumed, natural gas is a much “greener” resource than most other alternatives. For example, a modern combined-cycle natural gas power plant is second only to a nuclear power plant as the cleanest source of electrical generation. This is especially true when natural gas power is used in conjunction with renewable resource like wind and solar. Natural gas undergirds these renewables when the wind doesn’t blow or the sun doesn’t shine.

In addition, compressed natural gas, or CNG, can be used to fuel vehicles. CNG fueled vehicles have 30% less CO2 emissions and emit 90% less pollution than their gasoline counterparts. This is partly why more fleet vehicles are being transitioned from traditional gasoline or diesel fueled vehicles to CNG vehicles.

It’s Affordable!

Because our country’s natural gas supply is almost solely a domestic resource, it is less susceptible to foreign economic influences. On the other hand, OPEC is expected to cut oil production by 1 million barrels per day in an effort to raise prices, yet global demand for oil continues to rise at unprecedented rates. By 2020, the Institute for Analysis of Global Security estimates that world oil consumption will increase by 60%, further driving the high cost of oil. In fact, The International Energy Agency (IEA), the global energy watchdog, predicts \$200/bbl oil by 2030, and it’s not hard to imagine that milestone coming sooner.

By contrast, U.S. Natural gas production has increased over 8% the past two years, out stripping the 3% demand growth. With such abundance, Americans can refuel CNG vehicles for about \$1.50 per gallon, or about \$15 for a fill-up. Compare that to the unstable cost at the pump for conventional vehicles.

While the current infrastructure has not caught up with the growing availability and potential demand for natural gas, few can dispute the impact that natural gas can have on our economy and environment. Through continued development of natural gas fields like Marcellus Shale, we can wean our nation's dependence on foreign oil, help stabilize our economy and clean up our environment.

In the past, when new technologies came to other sectors of our economy such as manufacturing, coal and agriculture, it typically led to a decrease in jobs. New technology in the natural gas industry, however, is leading to an increase in jobs because it opens up new formations like Marcellus Shale.

As such, Chesapeake has made a significant investment in Pennsylvania for the purpose of developing the potential of the Marcellus Shale. Last week's announcement of our partnership with Norwegian company, Statoil-Hydro, provides us with a unique opportunity to increase our activities in the Commonwealth even more.

In conclusion, I want to emphasize that Pennsylvania is uniquely positioned to help lead our country into energy independence through the development of the Marcellus Shale. As policy-makers, you have an opportunity to build upon the successes of recent legislation encouraging alternative energy and promote the development of natural gas. While this "play" is not without its challenges, as you are hearing today, I encourage all of you to keep an eye on the big picture and find ways to work with the industry to encourage the development of Marcellus Shale so we may all reap its many benefits.