

**Statement of Pennsylvania Representative Martin Causer  
Before the U.S. House Committee on Agriculture**

April 13, 2016

Good morning, Mr. Chairman and members of the committee. Thank you for the opportunity to be here today to share my perspective about the impact of the oil and gas industry on rural economies.

By way of background, I was elected to the Pennsylvania House of Representatives in 2002, representing the 67<sup>th</sup> Legislative District, which encompasses three very rural counties. In fact, my district is the largest geographically in our Commonwealth at 2,426 square miles, surrounded mostly by Allegheny National Forest Land and state forest land. The population of my district is 64,519.

In the state House, I currently serve as Chairman of the House Agriculture and Rural Affairs Committee and also as a member of the House Environmental Resources and Energy Committee. These roles suit me well given the fact I grew up on a dairy farm in the heart of Pennsylvania's oil patch.

While much more attention has been paid to the oil and gas industry in the Northeast over the last decade due to the expansion of deep natural gas drilling in the Marcellus Shale, the industry has been a foundation of the Pennsylvania economy for well over a century.

**Conventional Drilling in PA**

Long before the advent of drilling in the Marcellus Shale in Pennsylvania, our region was dotted with thousands of small, shallow oil and gas wells -- many of them in the Allegheny National Forest. The so-called "conventional" oil and gas industry has been in existence in our Commonwealth for more than 150 years. In fact, just west of the area I represent is Titusville, Pennsylvania, home of the world's first oil well and the birthplace of the modern petroleum industry.

The City of Bradford PA, best known as the home of the Zippo Lighter, also hosts the oldest continuously operating oil refinery in the nation. The refinery opened at its present location in 1881 and is now operated by American Refining Group. ARG purchases the majority of its high-quality, Penn Grade crude from sources in Pennsylvania, Ohio, New York and West Virginia. It has the capacity to process 11,000 barrels per day, and in 2013 became the first refiner to achieve "Made in the USA" certification.

Bradford is also home to the only McDonald's restaurant I know of with a working oil well in the parking lot!

But these are tough times for the industry. The number of wells drilled has declined steadily since 2007. Conventional wells generally produce small quantities of oil or gas, have marginal rates of return and are strongly influenced by oil and natural gas commodity prices and other market forces. In addition to the market decline, the producers are facing an increasingly

unreasonable regulatory environment in our Commonwealth, and that is placing thousands of good, solid, family-supporting-wage jobs at risk. In regions like the one I represent, good jobs like these are not easily replaced.

But the men and women who work in the oil and gas industry are passionate about their business and continue to work hard. The conventional oil and gas industry plays a vital role in our domestic energy production, and of course petroleum is used in the production of hundreds of common products. Most people are aware it is used in plastics and asphalt, but it's also used in making wax (crayons and candles), rubber boots, balloons, Vaseline and various types of cosmetics, nylon and other synthetic fabrics and many, many more.

Not everyone relies on the oil and gas industry to support their local economy like we do, but they certainly rely on it in most every facet of their daily lives.

### **Unconventional Drilling in PA**

In the late 2000s, drilling of a newer kind of well in Pennsylvania expanded dramatically, bringing with it more job opportunities and more people spending money at local hotels, restaurants and retail stores.

The deep well, or “unconventional,” drilling industry has generated significant tax revenue at the state level:

#### **Extraction Industry only: 2009 - 2014**

Capital Stock and Franchise Taxes	-	\$ 37 million
Corporate Net Income Taxes	-	\$ 176 million
Sales and Use Taxes	-	\$ 25.2 million
Personal Income Taxes	-	<u>\$ 81.3 million</u>
Total	-	\$ 319.5 million

#### **All Related Industries: 2009 - 2014**

Capital Stock and Franchise Taxes	-	\$ 162.8 million
Corporate Net Income Taxes	-	\$ 877.7 million
Sales and Use Taxes	-	\$ 270.8 million
Personal Income Taxes	-	<u>\$ 435 million</u>
Total	-	\$ 1.7463 billion

Total for 2008 - \$ 183.3 million

Total for 2007 - \$ 207.3 million

**Grand total 2007 – 2014 - \$ 2.137 billion**

*Source: PA Department of Revenue*

Unconventional drilling has further generated revenue for communities where drilling takes place, as well as for the Commonwealth as a whole, through an “impact fee.” Since 2011, the industry has paid more than \$855 million in impact fees, with 60 percent of those fees being distributed back to counties and municipalities where drilling takes place to address impacts such as road, bridge and infrastructure construction or maintenance; water, storm water and sewer

system construction or maintenance; emergency preparedness; housing needs; and reclamation projects.

On the local level, impact fees awarded to the counties I represent, between 2011-14, are as follows:

- Cameron County: \$1,438,338.
- McKean County: \$2,664,853.
- Potter County: \$4,322,044.

A portion of the impact fee supports regulatory enforcement, public safety training related to natural gas drilling and a variety of environmental protection initiatives on the statewide level.

Drilling in the Marcellus Shale and more recently the Utica Shale has also generated a significant economic benefit for many farmers in our state. As large-scale land owners, many farmers have taken advantage of the opportunity to lease a portion of their land for drilling and then used the royalties they receive to reinvest in their agricultural operations.

For some, it has meant investing in a piece of equipment to enhance the farm, rather than struggling to repair something that's on its last legs. For others, the money allowed them to expand their operations. Still others were able to retire but keep their land in production by renting it out to others looking to be a part of the agriculture industry.

### **What's Next**

Not unlike the conventional oil and gas industry, the deep, unconventional drillers have also seen a significant downturn. A few years ago, well over 100 drilling rigs were operating in Pennsylvania. Today, there are only about 20.

A struggling oil and gas industry means struggling communities and people across the Northern Tier of Pennsylvania. We've seen a drop in economic activity overall and many people losing their jobs.

There's no question we are going through some hard times, but we have been through hard times before and are looking forward to the market turning around. And when it does, Pennsylvania stands poised to capitalize on the opportunities offered by our oil and natural gas reserves.

The next big step must be further development of our pipeline network. More than half a dozen pipeline projects are in various phases of development in the Commonwealth. And they offer more in the way of opportunity than just transporting our oil and gas to market.

The "Northern Access" pipeline, which is under construction and will deliver gas from northcentral Pennsylvania into southern New York, is already helping the region's economy. The short line rail industry has benefitted from the opportunity to transport pieces of the pipeline, and construction jobs have been created to install the line.

Overall, pipeline development has proven difficult and controversial in many cases, and it certainly must be done as much as possible in such a way that is respectful of private landowners who are impacted by the lines.

Just as wells drilled on farmland offer opportunity to farmers, so do pipelines. While the installation process is disruptive, once the line is in place, the land above it remains profitable for the farmer. Many Pennsylvania farmers have recognized this, as evidenced by a resolution adopted by the Pennsylvania Grange at its annual meeting in March to support the construction, renovation and upgrading of pipelines “to take advantage of the economic development possibilities, well-paying jobs, and freedom from dependence on foreign oil that Pennsylvania-produced natural gas will bring to our community.”

Pennsylvania is also awaiting the opening of two Marcellus-powered electrical plants. The first, in Bradford County, is credited with creating 500 jobs during the height of construction, and expects to generate enough energy to power as many as one million homes.

In the western part of the state, Royal Dutch Shell is working toward the potential opening of an ethane cracker plant that would take the ethane byproduct of fracking a natural gas well and create ethylene, a compound used in the manufacturing of plastic. The plant would require natural gas resources from all over the western part of our state, potentially creating thousands of jobs.

Projects like these provide great opportunities to grow our rural economies, and I believe we need to encourage more industrial consumers of natural gas to locate in the regions where drilling takes place. Rather than export more of our natural gas, we should focus on domestic uses.

### **Conclusion**

The oil and gas industry is a cornerstone of the economies of many rural communities across Pennsylvania and the nation. As the industry has struggled in recent years, it has had a notable impact on local revenues and jobs.

The men and women working in our oil and gas fields work hard at being good stewards of the environment while also delivering a valuable commodity -- energy -- to our communities and beyond. It is important that we work together at all levels of government to ensure ongoing opportunities in the industry. That mostly means we need to stay out of the way by ensuring environmental regulations are not overly restrictive but instead reasonable and relevant to these operations. And it means facilitating unique opportunities, such as the Royal Dutch Shell cracker plant and gas-powered electrical plants, which help grow the domestic market for our oil and natural gas reserves.

The oil and gas industry has long proven to play a vital role in rural economies across the state, and it must continue to do so.

Thank you.