



**Pennsylvania Senate Majority Policy Committee Hearing  
Wednesday, January 26, 2011**

**Testimony  
Of  
David J. Spigelmyer  
Vice President, Government Relations  
Chesapeake Energy—Eastern Division**

**Thank you for the invitation to participate in this important dialogue on the local impacts of a Marcellus shale development in this Commonwealth. Nothing can be more important today than promoting the safe and responsible development of such a valued resource.**

**First, let me begin by sharing with you information about my employer, Chesapeake Energy. Chesapeake is America's largest shale gas producer in the United States and second largest independent natural gas producer providing 2.6 bcf/day or roughly 3.5% of total United States production. Chesapeake is the largest leaseholder in the Marcellus shale with approximately 1.65 million net acres leased and available for development. We currently have 23 drilling rigs operating in the Commonwealth and plan additional growth in the north-central and southwest regions of the Commonwealth. Chesapeake also has extensive operations within all of the major shale plays across our country by holding a number one or number two acreage position in the Barnett Shale in Texas, the Haynesville Shale in Louisiana and Texas, the Fayetteville Shale in Arkansas, the Eagleford in Texas, and as noted above, our significant acreage position in the Marcellus. I raise this point because it is important to understand that while development of a vast shale play may be new to Pennsylvania, there is a history inside our industry of working with our communities and addressing any impacts of our operations head-on.**

**Local Impact #1—reduction in the volatility of natural gas pricing to local industries, businesses and residents. Benefits of a local supply!**

**For nearly a ten year period leading up to 2009, natural gas users witnessed extraordinary swings in natural gas pricing due to tight natural gas supplies throughout the United States. Over that ten year period, we watched natural gas prices jump during periods of high demand, primarily in the winter, and then fall as demand for natural gas dropped during the spring and summer months. This**

**Chesapeake Energy Corporation  
300 North Second Street, 5<sup>th</sup> Floor, Harrisburg, PA 17101  
717.230.8620**

phenomenon peaked during the winter of 2008, as natural gas commodity pricing climbed to in excess of \$13/MCF in many delivery points across the United States. Fortunately, as significant new natural gas production volumes began to enter the market in the spring of 2009, primarily due to the increased supply of natural gas flowing from shale gas development, we have witnessed a softening in the swings in natural gas commodity pricing that seemed to become the norm in the marketplace.

Developing our Pennsylvania natural gas supply can also benefit end-use consumers. For more than 100 years, Pennsylvania has been the home to extraordinary natural gas production activity in the southwest, central and northwest sectors of the Commonwealth. Our independent production community has drilled as many as 4,000 wells annually, typically delivering 25% of the natural gas we consume here in the State. Today, after just 3 years of development, Marcellus shale well drilling has nearly doubled that production. We have accomplished this through the use of horizontal drilling technology that allows for multiple wells on a single pad location. Multiple well pad drilling is a conservation winner as we have nearly doubled our Pennsylvania production with less than one-third of the surface disturbance. In less than five years, it is very likely that local Marcellus production will exceed the demand for natural gas here in the Commonwealth.

One real savings worth noting relates to the current requirement of transporting natural gas here from other regions of the United States. Most natural gas volumes necessary to fuel our homes, businesses and industries flow to Pennsylvania through large interstate pipelines that transport natural gas from the Gulf Coast states or Midwest into the northeast. While our Public Utility Commission provides oversight, utilities must pass along their commodity purchases and demand charges directly to consumers for those long-haul transportation charges. Developing the Marcellus shale here under our very feet will lessen the need for long-haul pipeline transportation contracts and soften these pipeline demand charges over time. This is indeed an extraordinary local benefit and will provide an opportunity for growth of local manufacturing due to reduced transportation charges to use natural gas.

## **Local Impact #2—A jobs engine for this Commonwealth**

All across this Commonwealth, we are witnessing new job growth stemming from Marcellus shale development. Researchers from Penn State University estimate that we will witness direct and indirect job growth of 111,413 jobs in 2011, rising to nearly 212,000 jobs by 2020. Although these are estimates, let me share with you a very welcomed trend at the Marcellus Shale Coalition, the Trade Group representing nearly all of the Marcellus Shale operators. Just last Thursday at a meeting in Canonsburg, we added 35 new Associate members—bringing that membership total to some 165 companies that are supporting this industry. The

**growth in membership is indeed extraordinary and is providing a welcomed trend of new members. But most importantly, these are companies who are employing Pennsylvanians, paying Pennsylvania taxes, supporting Pennsylvania communities and enabling our production and midstream development plans to expand right here in the Marcellus.**

**As for my employer, Chesapeake Energy began ramping up operations in 2008. I joined Chesapeake in March of 2009 as employee 220. Today, our count is exceeds 1200 Pennsylvania based employees located primarily in Bradford, Susquehanna, Wyoming, Washington and Greene Counties. In the rural town of Towanda in Bradford County, Chesapeake offices are located in the old Ames Department Store (a facility that sat vacant for the better part of a decade), and today hosts our headquarters for northern drilling operations—and some 400 employees.**

**As for spillover local impacts, I would like to share with you the extraordinary local job impacts that are delivered by this industry. You need not take my word for it, but a quick review of the Northeast Driller, a supplement issued quarterly by the Towanda Daily Review, paints quite an employment picture. Just through a quick inspection you will see that service related industries are ramping up to meet the needs of a growing production and pipeline industry here in the Commonwealth. Examples include: local pipe and equipment supply, environmental services, water well testing firms, local auto dealers have witnessed an upswing in sales and service requests, engineering services, catering/food service, welding, telecommunications, building and housing construction, estate planning and investment counseling, rental agencies, trucking, fuel services, road maintenance contracting, heavy equipment operation, quarry operations, restaurants, hotel and motel, and the list goes on and on.**

**One very significant industrial activity worth noting are the benefits flowing to our nation's largest domestic pipe producer located right here in Pennsylvania-- United States Steel Corporation. As the responsible development of the Marcellus shale has grown, US Steel has witnessed growth in steel pipeline orders from their Mon Valley Works. US Steel's Mon Valley Works employs over 3000 steelworkers and includes facilities in: Clairton, Braddock, West Mifflin and Fairless Hills. For every job at the Mon Valley Works, there are 4 to 5 supply chain jobs. One recent example is an order received for 50 miles of pipeline for the Marcellus shale that was produced at the Mon Valley Works by Pennsylvania steelworkers. A 50-mile pipeline order is probably one of the largest Marcellus pipe orders to date. However, it will not be the last!**

### **Local Impact #3—Energy Independence**

Many of you in our audience today enjoy the benefits of heating your home, cooking your food, drying your clothes and warming your water with clean-burning natural gas. Many of you are likely unaware that natural gas is the primary fuel used in such manufacturing processes as steel, glass, plastics, chemicals, fertilizers, pharmaceuticals, and even generating our electricity during periods of peak demand. With memories of \$4 gasoline prices still fresh on everyone's mind from the summer of 2009, let's shift our attention to another energy solution that has yet to be fully realized--using Pennsylvania produced natural gas in our vehicles and fleets. According to the Department of Energy, more than 80% of the pollution in our cities is attributable to motor vehicle emissions—I would call that a local impact. Today, we send nearly one- billion dollars per day overseas for transportation fuel. Yet, we have the proven technology at our fingertips right now to fuel our vehicles with domestically produced natural gas, an environmentally friendly alternative to foreign sources of oil. With your help, we hope to one day be a leader in fueling our bus fleets, our delivery vehicles, postal vehicles and other mobile sources in your hometown with clean-burning Pennsylvania produced natural gas. As an example, the CATA bus fleet in State College already fuels their entire bus fleet with clean burning, domestically produced natural gas. Pennsylvania can and should be a national leader in converting regional transportation fleets to natural gas, which would inevitably pave the way to expanding natural gas solutions for personal transportation. By using natural gas over other conventional fuels, we would cut carbon emissions by as much as 40%, nitrogen oxide emissions by as much as 35%, drastically cut sulfur dioxide emissions and emit virtually no particulate matter. Most importantly, natural gas can be—and should be--our choice to offset our Country's requirements for foreign sources of oil.

Thank you for the opportunity to participate in this hearing and I welcome your questions.