

PA Governor Rendell's Comments

George W. Bush Institute

"Natural Gas Nation" Highlights:

<http://georgewbushinstitute.com/natural-gas-nation/>

Audio file link:

[http://georgewbushinstitute.files.wordpress.com/2010/03/ngn_05_roundtable.mp](http://georgewbushinstitute.files.wordpress.com/2010/03/ngn_05_roundtable.mp3)

[3](#)

"Natural Gas Nation" Policy Roundtable

March 25, 2010

Collins Center for Executive Education

3150 Binkley Avenue

Southern Methodist University

Dallas, Texas

Moderator

The Honorable James K. Glassman

Executive Director, George W. Bush Institute

Panelists

- Lee K. Boothby, President & CEO, Newfield Exploration Company
- Victor G. Carrillo, Chairman, Texas Railroad Commission
- Regina Hopper, President & CEO, America's Natural Gas Alliance
- Richard D. Kinder, Chairman & CEO, Kinder Morgan
- Dana L. Murphy, Commissioner, Oklahoma Corporation Commission
- **The Honorable Edward G. Rendell, Governor, Commonwealth of Pennsylvania**
- Trevor D. Rees-Jones, President & CEO, Chief Oil & Gas
- Scott D. Sheffield, Chairman & CEO, Pioneer Natural Resources
- Charles B. Stanley, President & CEO, Questar Exploration and Production Company

[Transcript furnished by <http://www.spectraenergywatch.com/blog/>

*NOTE: **Yellow highlights** have been added to identify comments of particular interest.]*

Moderator James Glassman: So Trevor [Rees-Jones] just said, "much to your pleasure" [interruption/discourse] – so is it much to your pleasure that you are suddenly sitting on top of a huge reservoir of natural gas. How are you coping with that?

Governor Rendell:

Well, the story is, really, are we going to avoid killing the golden goose? And that question is unresolved.

We started out terrific in Pennsylvania. The news of the shale was heralded 'cause it came, really, as we got into the teeth of the recession, although drilling had begun in 2007. But major economic impacts really came a little bit in '08 and mostly in '09.

Just to give you an example: Pennsylvania gained jobs in the last three months unlike most states in the union – gained over 20,000 jobs, 14,000 of that 20,000 came from the shale itself, from shale [drilling?].

So it's had a tremendous economic impact. For those of you who don't know the scope of the shale: It is the largest unconventional reserve of natural gas – recoverable natural gas – in the state.

It's 489 trillion cubic feet of supposedly recoverable. That would be enough at current consumption to meet the nation's requirements for the next two decades. So it's a pretty awesome thing.

The Pennsylvania Economy League has estimated that \$7.1 billion a year of economic impact – at current levels of shale drilling – for the state of Pennsylvania will produce 26,000 new jobs this year; and, by the end of the decade, they predict annually 100,000 new jobs will be in place because of the shale drilling.

So the upsides are enormous. They're significant; and people realize them, and the shale was welcomed with open arms.

I embraced shale drilling. I was a good protector of the industry 'cause I have a strong environmental record – was endorsed in both elections by every single environmental group; and I, we worked hard and DEP has done a good job with the companies in going forward.

To give you an example of the activity, in 2005 we had four permit requests for shale drilling. Last year, 2,000; this year 5,200 are the estimates that we're going to have.

We've added 105 inspectors in DEP just for inspecting the shale drilling itself.

So the upsides and the potential here are enormous for Pennsylvania. And the industry got off to a good start because of the economy.

Lately it's begun to turn. Public opinion has begun to turn against shale drilling. There are five basic things that every state – that has significant shale. And by the way, we have shale under 52 of our 67 counties. Only southeast Pennsylvania – Philadelphia and its suburbs – and a little bit of south central Pennsylvania don't have shale underneath.

The five challenges, and every state has these challenges:

- 1) How to divert the millions of gallons of water that are necessary to operate the drilling?
- 2) How to prevent gas migration?
- 3) What do we do with the frac water – how do we dispose of it or beneficially reuse the frac water?
- 4) What about the infrastructure? What about the roads with the heavy truck traffic that's coming in and out of shale drilling areas – mostly in our northern tier itself which is a fairly undeveloped part of Pennsylvania? And
- 5) How do we protect the natural beauty of the state? Pennsylvania was given by the Lord an incredible bounty of natural and wild lands. There are more natural and wild acres in Pennsylvania than the entire states of Connecticut and Rhode Island put together. And Pennsylvanians feel very strongly about that. We're a great sportsmen's state – fishing and hunting; and our wild and natural areas are very treasured.

So it is a tough balance to undertake. We started out working well with the shale industry. We've urged them to find ways to reuse the flowback frac water; and about 50% of the drilling companies are, in fact, reusing it. Some are reusing it, as much as 100%. We have urged them to use water from, that's tainted by acid mine drainage rather than using fresh water; and some of the companies are doing that as well.

We've worked hard – the state and local communities – to try to protect the infrastructure of the roadways, and to minimize the damage.

I've been a good spokesman minimizing the potential for groundwater pollution. There were two incidents in Pennsylvania, but fairly minor considering that of those permits that have been sought, we've been drilling 1,200 drills, or wells have been underway in the shale. And we've had two relatively minor incidents.

Those incidents have been blown out of proportion – a lot by the media. We have fought back and have made, I think, a fairly persuasive case.

But public opinion is starting to turn because I don't think the industry's done a great job of public relations, number one. Number two, we have environmental groups in the southeast that aren't directly affected. You expect them to be sort of, ah, against any type of, ah, imbalance.

But even in the northern tier, we're starting to lose the support of counties where the people are making the most money from the shale, where a lot of the jobs are being created. And groups like Trout Unlimited, which is a very powerful organization in Pennsylvania, it's begun to come out against expansion of shale drilling.

I got tremendous amount of grief for leasing 32,000 acres of state forest lands to shale drillers. There's a bill in the current budget – there's an amendment to ban further leasing of state lands, from my own Democrats, from my own Democratic party.

We nonetheless went ahead with it [the leasing] and got a \$128 million, almost 2 1/2 times what we expected from the leasing of those 32,000 acres.

And there are misconceptions. People are thinking that shale drilling, because it's horizontal, gobbles up and ruins a lot of surface ground land. When, in truth be told, it takes less surface ground land than conventional drilling.

So we're working hard with the industry to mitigate and minimize these problems. But the industry continues to make mistakes. And their biggest current mistake now is strong, almost uniform, resistance of a severance tax.

And someone asked me why they're doing this, because there's severance taxes in all the other states. They're doing it because they can. There's a Republican senate [in Pennsylvania] that is a no-tax senate; and will stick with them and keep the tax from going into place.

But the public is overwhelmingly – 75% in polls say they want to see a reasonable severance tax imposed. And 75% for a tax is extraordinary, in any state these days but particularly in Pennsylvania.

And the drillers are getting some bad advice in resisting this tax, because two years after I leave – not having anything to do with my fiscal management – but, when the stimulus funds fall off, Pennsylvania will have a \$3 billion deficit; and in the following year, there's a pension spike that was passed in the year 2000 is going to hit the hardest and we'll have a \$5.6 billion deficit.

And when that comes, they'll be so desperate for money that a reasonable severance tax – which I've urged the industry to sit down and write with us – won't be enacted. A severance tax that will bleed the industry, like Europe and Asia and places like that, will be enacted.

Right now, they have a chance to work with a governor who is pro industry and has stood up publicly and fought for the industry; and let them, as they did in Arkansas, write a modest and reasonable severance tax – maybe a severance tax that actually phases in. I opposed the severance tax last year, again in opposition to most of my party – 'cause I said, 'Look, it's a nascent industry, it needs time to breathe, it needs time to grow.'

But with Exxon-Mobil coming in and buying XTO for the amount it did, with the auction getting almost three times as much money as [we had?], you can't make that argument any more.

And I invited every one of the drilling companies to a 5-hour retreat at the Governor's residence to talk about fracing, to talk about reuse, to talk about many other things – included in it was the severance tax. And only one of the major drilling companies said they would come.

Now I have not said that publicly. If I told the people of Pennsylvania that, there would be a sense of tremendous outrage. As governor, I've never had that experience before. I've never invited major CEOs – even to talk about things as difficult as taxes – to come to the residence and had them turn me down.

So the industry is making mistake after mistake right now, and the tide of public opinion is turning. And even though it is truly the golden goose, we could blow it.

The last mistake the industry made for those of you who are interested in politics – and I know none of you here are interested in politics – but the reports – I'm term-limited, this is my last year as governor – the reports for the, the financial reports for the gubernatorial candidates in this year's election to replace me came out; and the industry cumulatively gave \$380,000 to the Republican candidate [PA AG Tom Corbett]. And there are multiple Democrat candidates and none got more than \$5,000.

That makes a wonderful atmosphere for the Democrats, who control the house. I had to take about 27 angry phone calls from Democrats in the house saying, 'You're supporting these guys when they're giving Republicans all this money!'

Good Lord, either give no money at all, or give the money with a sense of balance, if you're trying to do the things necessary that we need to do to make this industry flourish. It's not irretrievable but we are on our way to killing the golden goose.

Moderator James Glassman: Thank you, Governor Rendell.

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