



Testimony of

**David Callahan, President
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Before the
House Republican Policy Committee**

Rising Energy Costs

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Good morning, Chairman Kail and distinguished members of the committee. My name is David Callahan, and I serve as President of the Marcellus Shale Coalition (MSC). The MSC is a state-wide trade association representing more than 130 energy companies from the upstream, midstream, and downstream sectors, and those who supply goods and professional services to the industry. Our members are fully committed to working with local, county, state and federal government officials to facilitate the safe development of natural gas resources in the Marcellus, Utica and related geologic formations. I appreciate the opportunity to be with you today and to share some thoughts on how we may collectively work together to address concerns related to increasing energy costs for consumers through policies that expand access to clean, domestic and affordable sources of energy.

Pennsylvania's energy industry has served a unique and critical role throughout our nation's history, powering America's industrial revolution, the successful campaigns to win two world wars, and most recently, navigating through the challenges of a worldwide pandemic.

Each of these historic events – and thousands in between – were spurred in large part thanks to the abundance of natural resources with which Pennsylvania is blessed, and generations of talented, hardworking and patriotic Pennsylvanians that met each challenge.

Center to many of these accomplishments is energy. Energy is, fundamentally, how we power things, build things, move things, and meet the necessities of our modern economy and way of life. And, from the birthplace of the modern oil and natural gas industries, to our bountiful coalfields, to the innovations of George Westinghouse and other nuclear pioneers, and a water-rich state that has helped power renewable resources, the success of our energy industries has always been inextricably linked to the success of our economy and continued advancement of our quality of life.

Role of Natural Gas in Pennsylvania's Economy

Some quick table setting may be in order. Several of you are no doubt already familiar with these statistics, but it bears repeating.

In 2008, at the dawn of the Marcellus era, Pennsylvania produced just 25% of the natural gas which we used in the state. We were the 15th largest producer in a nation that, just years earlier, was legitimately concerned about whether we would have enough natural gas to power businesses or heat homes. Natural gas was an insignificant part of our electric generation portfolio – well under 10% - due to both scarcity of the resource and its high price at the time.

Fast forward to today. Pennsylvania is the second largest natural gas producer in the nation, behind only Texas. We now produce more than 20% of the *nation's* natural gas and serve a key role as both a domestic and international exporter of gas. Last year, nearly 53% of our electricity in Pennsylvania came from natural gas, helping make Pennsylvania the largest electricity exporter in the nation. It bears emphasizing: many of the New England states, as well as New Jersey and New York, are able to tout their climate-emission reductions *not* because they have re-engineered their own power generation supply, but because they have literally shut down their own generation units, and instead relied upon Pennsylvania to keep the lights on and their businesses open.

If we are to not only maintain, but grow, this impressive profile, we must tackle the barriers to energy access which ultimately will provide more stability and affordability for consumer energy prices.

2008 versus 2023

I commend the committee for focusing this hearing on rising energy costs for consumers, and what we can do to address the concerns of the average consumer. While certain influences on cost, such as international conflict and federal policies, for example, remain outside the direct control of any individual state, we can take certain steps at the state level that can be helpful and which I will touch upon in a few moments.

But it is worth taking a brief moment to examine how far we have come in Pennsylvania to improve the market for energy costs for the consumer. And it is apparent that much of the progress is due to the development our abundant domestic natural gas resource.

In 2008, Pennsylvanians faced the beginning of expirations of electricity generation rate caps, which were first imposed following passage of the 1996 electric competition act. Many feared skyrocketing price impacts on consumers, and because of this fear, some policymakers considered returning Pennsylvania to a regulated marketplace in which ratepayers – not private investors – shouldered the risk of building new power plants.

Natural gas prices routinely exceeded \$12 or \$13 an MCF¹, and nationally, companies were finishing years of investments in natural gas import terminals and figuring out which nations we would negotiate with to buy their natural gas – just to maintain the status quo.

¹ The average natural gas cost for the six largest utilities in 2008 was \$13.69/mcf, declining 74% to \$3.61/mcf in 2020 (Source: PA PUC Purchased Gas Cost Rate)

What happened over the next 15 years, however, was unprecedented and forever altered our nation's energy strategy and the global marketplace. During that time, the United States went from an energy importer to an energy exporter, providing us with something that had been considered unattainable – energy security. This happened as innovation and technology allowed us to access unconventional shale resources that provided an abundant supply of natural gas and oil from under our own feet. As a result of this increased supply, prices began to drop for the American consumer.

It is important to understand that here in Pennsylvania, even with the higher electricity prices that consumers have seen over the past year, electricity still costs between 30-40% less today than it did in 2008. Natural gas prices – even though higher over the past year – are still substantially below where they were before we were producing our shale resources. In fact, PA Public Utility Commission data shows that through 2021, the energy costs of homeowner's natural gas bills have gone down between 61% and 76%, saving consumers billions of dollars each year². So instead of the \$12 - \$13 MCF price pre-shale development, the average price for 2022 was below \$6 per MCF in Pennsylvania - still half of what it was 15 years ago. Currently, natural gas is trading below \$3 per MCF.

This favorable environment has attracted over \$13 Billion worth of new natural gas electric generation in Pennsylvania – all with private investment and no taxpayer subsidies, and largely with the work provided by our skilled construction trade unions. As a result, we have seen natural gas generation grow from less than 5% of our generation portfolio in 2005 to 53% of our electricity generation portfolio today. Pennsylvania is now the largest exporter of electricity in the entire nation³, sharing the benefits of these resources with consumers beyond our own borders. While there are some to our east and north who have been critical of Pennsylvania's electric generation, the fact is that we are keeping their lights on: in 2021, Pennsylvania produced the same amount of electricity as Massachusetts, Maryland, New Jersey and New York – combined⁴.

Preserving Consumer Energy Choice

Preserving the ability for consumers to have access to diverse energy supplies is foundational to preserving our ability to have access to affordable and reliable energy resources.

Reliability is often overlooked in this equation. As important as it is to be able to afford our energy bills, we also need the lights to go on when we flip the switch. We need the electricity to flow when the hospital, school, senior citizen living center or household with vulnerable citizens call upon it. Access to natural gas for heating our homes, cooking our food, heating our water, or powering our businesses and manufacturers is critical to this equation. In addition to sourcing these resources locally – supporting Pennsylvania jobs – this diversifies our energy portfolio and reduces stress on our electric grid, particularly during times of high demand.

² PA PUC Purchased Gas Cost Rate 2008 - 2021

³ In 2021, PA exported 35% of the electricity it generated (PA Independent Fiscal Office, March 2022)

⁴ PA: 242 million mWh; MA, MD, NJ & NY: 245 million mWh (Source: PA Independent Fiscal Office, March 2022)



Indeed, 3.4 million households⁵ in Pennsylvania – housing nearly 8.4 million residents – use natural gas as their primary heating source. Imagine if prohibitive and punitive policies like those being advanced in jurisdictions like New York and elsewhere were in place here in Pennsylvania? Extreme weather events would most certainly lead to life-threatening disruptions for Pennsylvanians because our electric grid would likely become overwhelmed. And to emphasize this point, while there are certainly lessons being learned from the unprecedented Winter Storm Elliot, the fact of the matter remains that PJM, the grid in which Pennsylvania operates and provides the majority of the generation, was a net exporter of energy to other regional grids despite PJM underestimating demand.

With this backdrop in mind, we express our appreciation and support for legislation⁶ that safeguards the ability of consumers to access their desired energy source. We are particularly grateful to Representative Tim O’Neal for championing this legislation last session, and for Representative Kristin Marcell for spearheading the effort this session.

Natural Gas: A Solution to Poverty

Thanks to the abundance and affordability of natural gas, the average annual savings to consumers in Pennsylvania is between \$1100 and \$2200 in energy costs, according to the most recent available data from the Pennsylvania PUC. This is a consumer benefit realized by all Pennsylvanians but is most beneficial to lower income individuals and communities of color. So actions and policies that either directly or indirectly hinder development of natural gas, and thereby restrict supply and transportation opportunities, only hurt those who need the most help by driving up costs.

To understand the impact of restricting access to natural gas, we need only look to our neighbors in New England who pay 81% more for their electricity than Pennsylvanians primarily because of the blockade New York has imposed on pipeline development prohibiting access to Pennsylvania produced gas.⁷

To further emphasize the need to ensure affordable energy, a U.S. Senate whitepaper analyzing the impacts of increased energy costs found that for every 10% increase in energy costs, 840,000 people across the U.S. are pushed into energy poverty.⁸ Naturally, poorer households are more sensitive to energy prices, so again, policies that enhance supply and transportation of natural gas disproportionately help those in poorer communities who need access to cheap and reliable energy that natural gas provides.

And for those who still question the importance of natural gas for affordability, a recent study out of Texas examined the impact of energy prices on lower income households demonstrated

⁵ U.S. Energy Information Administration (Nov. 17, 2022): <https://www.eia.gov/state/print.php?sid=PA#:~:text=Two-thirds%20of%20Pennsylvania%20households%20use%20natural%20gas%20as,states%2C%20after%20Texas.%20Last%20Updated%3A%20November%2017%2C%202022>

⁶ [House Bill 1947](#) (2021-2022 Legislative Session)

⁷ U.S. Chamber of Commerce – Global Energy Institute 2018 Average Retail Electricity Prices

⁸ <https://www.energy.senate.gov/services/files/075f393e-3789-4ffe-ab76-025976ef4954>



that policies restricting and banning access to natural gas can be devastating to lower income families. By analyzing the impacts of policies that banned natural gas in California and New York, the report found that a “transition away from natural gas would spike energy costs and disproportionately impact lower income households who would have to pay nearly two to three times as much for electricity compared to natural gas.”⁹

Benefits of Retail Competition

While people are understandably concerned about rising energy costs and the impact it has on their household, business, school or non-profit budgets, we are fortunate in Pennsylvania to have some options that are not available in every state.

Thanks to the foresight of this General Assembly and past governors, Pennsylvania has a mature, robust competitive energy marketplace that allows consumers in many service territories¹⁰ to choose their electric or natural gas supplier. With respect to electricity supply, customers can make decisions based on a host of factors that reflect their own purchasing priorities, including cost, fixed rates for determinate time periods, preferred generation choices or a combination of these options. Natural gas suppliers are able to also offer a variety of products that meet a consumer’s needs. In all cases, the public utility continues to deliver the electricity or natural gas to the consumer, without interruption. While there are no doubt improvements that can be made to strengthen Pennsylvania’s competitive marketplace, there are numerous options available right now for many consumers that can deliver electricity or natural gas to consumers for costs which are below the utility’s default price.

I encourage your constituents to explore their supply options at www.papowerswitch.com for electricity and www.pagasswitch.com for natural gas. I have also included links at the bottom of this testimony to Fact Sheets¹¹ we have prepared which expand further on the benefits of consumer choice.

Nearly every Pennsylvania household uses electricity, and as we discussed earlier, two-thirds of our households use natural gas as their primary heating source, so the ability to shop competitively for a supplier that may be able to offer lower or locked-in rates to consumers is a significant advantage of which we should rightfully be proud.

Challenges to Energy Access and Affordability

One of the most critical challenges we face in the natural gas industry is the inability to acquire operating permits in a predictable time frame. Whether they are permits required to produce, process or transport the gas through pipeline development, Pennsylvania’s process to review and approve the required permits is entirely unpredictable and unnecessarily time consuming. While

⁹ [Pathway for Progress: Natural Gas and Addressing Energy Progress](#)

¹⁰ Pennsylvania’s competition law is not applicable to customers served by rural electric cooperatives, but is applicable to customers served by a regulated public utility.

¹¹ Please see: <https://marcelluscoalition.org/wp-content/uploads/2022/07/Electric-Customer-Choice-07-01-22.pdf> & <https://marcelluscoalition.org/wp-content/uploads/2022/06/Natural-Gas-Customer-Choice.pdf>

the PA Department of Environmental Protection (PA DEP) has, on its face, a Permit Decision Guarantee policy, in reality the policy is not adhered to. Too often, rather than either approving or denying a permit, the Department simply takes no action while it constantly re-engineers project designs, requests additional or supplemental information from applicants far beyond what the permit instructions compel or imposes permit criteria on applicants that are not found in either statute or regulation.

There is significant inconsistency across the Commonwealth as to how these rules are applied as well. In some regions, particularly north central Pennsylvania, operators are generally able to acquire permits in a predictable timeframe (albeit longer than what the Permit Decision Guarantee dictates they ought to be). However, in some cases, particularly in southwestern Pennsylvania, it can take 200, 300 or even more days to obtain a simple, straightforward earth disturbance permit to build a well pad, compressor station, or pipeline.

We have greatly appreciated the support of the members of this committee to advance legislative solutions to reform permitting and provide greater predictability, through proposals such as “deemed approved” legislation that would hold the Department accountable to a set timeline and third-party permit review, which is utilized successfully in other agencies and across the nation. While no legislative solution will ever be able to fully address the bureaucratic maladies that frustrate energy development in Pennsylvania, knowing that we have strong, vocal and effective advocates in the General Assembly, and in this caucus, has been reassuring to many who wish to continue to invest in our state and employ our residents.

Conclusion

On behalf of the MSC’s member companies and their employees, I thank you for the opportunity to provide testimony at today’s hearing. Our members and their employees are rightfully proud of the role they play each day to provide clean, reliable and affordable energy to your constituents. You can count on us to work cooperatively with you, the governor and your colleagues in the Senate to advocate and advance smart policy that builds upon our strong foundation.

I welcome the opportunity to answer your questions.

