

Testimony of Ray N. Walker, Jr. Vice President – Appalachian Shale
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Senate Majority Policy Committee
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Mr. Chairman and Senators, thank you for the opportunity to offer testimony today concerning the economic potential that Pennsylvania could enjoy by developing natural gas resources in the Marcellus Shale. The oil and gas industry was born in Pennsylvania 150 years ago and ushered in an unprecedented period of world-wide economic growth. The Marcellus Shale opportunity could return Pennsylvania to the energy leadership role it held over a century ago, creating a hundred thousand jobs, or more, and providing a tremendous supply of reliable, clean-burning, Pennsylvania natural gas to our country.

According to recent estimates by geology professor Dr. Terry Engelder from the Penn State University, recoverable reserves from the Marcellus Shale could range from 392 to 1,307 trillion cubic feet, enough natural gas to fuel the entire United States for generations based on current annual consumption of 23 tcf. While the Marcellus Shale trend spans parts of neighboring states, the largest portion of the trend underlies western and northern Pennsylvania, covering over 60% of the Commonwealth.

We estimate that about 50-60 horizontal wells and about 200 vertical wells have been drilled to the Marcellus Shale during the past two years. While some amount of vertical drilling will continue we believe that drilling of the Marcellus will evolve to primarily horizontal drilling techniques, which allow multiple wells to be drilled from a single drilling pad resulting in a very small surface footprint. To put this in perspective, the technology of horizontal drilling can develop the same reserves from a single drilling pad as about 20 vertical wells.

You have no doubt heard comparisons between the Marcellus Shale and the Barnett Shale in north-central Texas, currently the largest natural gas field in the country. Over 10,000 horizontal shale gas wells have been safely drilled in that area and over 200 active drilling rigs are presently drilling about 3,000 wells per year. Recent University studies indicate that natural gas drilling in the Barnett has created 100,000 permanent, high-paying jobs in Texas over the past 8 years and presently pumps more than \$10 billion each year into the Texas economy.

While Marcellus drilling is in its infancy, the potential size of shale gas development in Pennsylvania is several times larger than the Barnett, both in terms of potential recoverable reserves as well as aerial extent. Properly developing the Marcellus will create an unprecedented economic opportunity for Pennsylvania in terms of jobs, lease and royalty payments to landowners, and billions of dollars of capital investment that will remain in the Commonwealth

More than \$2 billion has already been invested in Pennsylvania during the past year for lease acquisition and drilling. A similar amount may be invested in 2009, probably with less emphasis on lease acquisition and more on drilling, which means more jobs and economic growth.

Range Resources expects to have 4-6 rigs running continuously in 2009 drilling horizontal wells. Each continuously running rig will support about 150 permanent jobs related directly to the drilling operation. These are all high paying, family-sustaining jobs ranging from highly technical engineers and geologists, to less skilled positions such as truck drivers, heavy equipment operators, rig hands, and general labor. While the Marcellus drilling level in Pennsylvania may only be 15-25 rigs in 2009, it could, over a period of years, climb to over 200 rigs as it has in the Barnett. In addition to jobs directly related to drilling, many more jobs will develop in manufacturing and service industries that support drilling. Already some of the largest service companies have opened regional headquarters right here in Pennsylvania.

Before Pennsylvania can fully capitalize on the economic potential of the Marcellus, several things must happen. First, Pennsylvania needs a reasonable and predictable regulatory environment in order to make the Marcellus competitive with drilling opportunities in other states. Second, drilling activity needs to ramp up significantly so that more service providers will relocate to Pennsylvania and economies of scale can be achieved to drive down costs. Third, a huge capital investment must be made in Pennsylvania to construct the pipeline infrastructure to move gas from the Marcellus to local and northeast energy markets. None of this will happen without the first element I mentioned – creating a reasonable and predictable regulatory climate for drilling. Let me first state that our industry is very appreciative of the recent efforts of the DEP and SRBC in working with us to help streamline the regulatory process in Pennsylvania. Pennsylvania has tremendous natural resources, abundant surface waters and well-founded regulatory processes in place. Our industry is focused on protecting the environment and developing the Marcellus and we are sure a proper balance of both can be achieved. Our industry is working hard to educate the DEP about the drilling process and to achieve a high level of

environmental protection. We have made it clear that regulatory policies must be streamlined and science based or they will not provide the necessary stability required to attract capital investment to the Marcellus.

We have heard the increasing talk in Harrisburg about the need for an oil and gas severance tax and other taxes on this new underground treasure. We would caution the Governor and Legislature that such a tax could potentially “kill the golden goose” if it were applied on top of the recent 50% drop in natural gas prices and the uncertainty of Wall Street and today’s credit market. New taxes will stymie Marcellus development and ruin the traditional natural gas industry in Pennsylvania that presently supports over 26,000 jobs and generates over \$7 billion annually in total economic impact. Further, new taxes would siphon revenues from drillers that would otherwise be reinvested in additional drilling, costing Pennsylvania thousands of new jobs.

We are hopeful that the Pennsylvania Legislature will provide leadership required to develop a climate that will allow the Commonwealth to enjoy the environmental and economic benefits that will result from developing natural gas resources in the Marcellus Shale.

Thank you again for the opportunity to share our thoughts with the Senate of Pennsylvania.