

TESTIMONY OF THE PROGRESS AUTHORITY

TO

SENATE URBAN AFFAIRS & HOUSING COMMITTEE

September 28, 2011

Anthony J. Ventello, Executive Director
Central Bradford Progress Authority

Good morning, members of the committee. I thank you for the opportunity to present testimony. I am especially appreciative of the allowance of testimony from those located and working in the core Marcellus area. My name is Anthony Ventello, Executive Director of the Progress Authority. We are an economic development agency chartered in Pennsylvania as a general purpose authority, industrial development authority and industrial development corporation, focused by county contract in all of Bradford and Susquehanna Counties. We are certified by the Commonwealth for all Pennsylvania economic development programs. We are the local grassroots facilitators of investment and employment enhancement.

Approximately 2 ½ years ago, we were much like everyone else in need of educating ourselves about natural gas development. Unlike western PA, we were not familiar with the industry, its terms, techniques, and overall economic and community impacts.

The Progress Authority staff and board members traveled with the Bradford County Commissioners, Penn State Ag Extension agents, Conservation District and others to Wise County, Texas. This was done because the Barnett Shale gas play was approximately 5 years into its development, and Wise County, Texas was similar in demographics to Bradford and Susquehanna Counties. In fact, we have formed a friendship with Wise County Commissioner Kevin Burns, who has been to Bradford County on 3 occasions, most recently in June to the Northern Tier Marcellus Shale Expo. We experienced every aspect of community impacts and natural gas drilling. Wise County officials and the Mayors of Decatur and Bridgeport, Texas were gracious to us. Needless to say, we were clearly overwhelmed with information and specifically, the economic prosperity with the drilling activity. We also had to translate the Texas experience

to our Pennsylvania circumstances. Issues such as topography, climate, land use, demographics, regulations and governmental structures had to be considered and evaluated to translate possible outcomes and community impacts.

Everything we were told has slowly come true. However, I must emphasize along the theme of this hearing our need for housing – both short and long-term housing development. I believe others who testify will focus on the issues of availability, affordability and displacement of needy populations. I believe they are better suited to emphasize the social impacts. With regards to economic development, I firmly believe that housing - which is urgent - is competing for land with infrastructure as both commercial and industrial developers meet the industry's needs.

As a rural county with limited infrastructure and tax base, the utility providers cannot afford or justify speculative utility expansions on the backs of limited high density users. Therefore, assistance is greatly needed to aid in all development costs as lines in many cases must have long extensions and few users between the utility terminus and the single development. With infrastructure investment from government sources, I believe the balance of economic development and community development can be struck.

The Marcellus play has changed our lives. It dominates all local conversations and agendas. The gas field development obviously started with the leasing frenzy, which has escalated from \$25.00 or less an acre to \$5,700 an acre or more. We then experienced the early development, or exploratory stages of drilling. Each natural gas company has their own business model, which they feel best suits their goals. It has to do with leasehold areas, well configurations, proximity to infrastructure, seismic data, and numerous other factors. We are now well past the early stages and what also accelerated gas field development was the shut down of unconventional drilling in neighboring New York State, thus intensifying activity and focus in Pennsylvania's Marcellus formation. I find it very important to emphasize the differences with this gas play as a dramatic focus on the demand for housing, both short and long-term.

We have been encouraged to develop working relationships with the natural gas companies in a greater effort to help facilitate and understand their needs, and involve our local businesses.

Our relationships with Talisman, Chesapeake and Chief have been excellent. I can gladly report that economic impacts have gone beyond any expectations. Many small businesses have had their need for services increase; for example, the local business that provides cleaning supplies to our office building is overwhelmed with demand for product due to the commercial and residential demand. Local restaurants, retail and commercial suppliers, trucking, fuel, lubricants, repairs, tires, machine shops, food, etc. – everything imaginable has had substantial increases in new business. Additionally, almost daily calls come from relocating businesses that have a relationship with the industry such as oil field supply, site services, excavating, pipeline companies, and professional services. The demand for useful commercial sites is at a premium, thus limiting housing options with limited infrastructure. Local entrepreneurs have bought equipment and converted their efforts and I know of catering at well sites from numerous food services. Changes in health care delivery with occupational medical professionals are now being developed. Our large manufacturers are involved in production of products that are used in the natural gas industry. In fact, the Progress Authority participated in the expansion of a local plant that recycles the rare earth metals from drill bit heads and manufactures the carbide cutting tips for rock drilling.

Contrary to many peoples' belief, many local people are now being hired – supported by Penn College's Marcellus Shale Work Force Needs Assessment, which for the first time actually quantified the work force impacts by measurable activity such as drilling rig counts.

Another major economic impact is the increase in railroad utilization. This new demand not only has increased rail activity, but supports an industry which utilizes large and heavy materials, thus helping with the reduction of trucks entering the county for bulk delivery.

The Progress Authority was the competitive recipient of funds from the DCED known as Regional Investment Marketing Program. This program focused on the specific regional attributes to target new business opportunities. Obviously, natural gas was a key focus. The state's Office of International Business Development urged the Progress Authority to attend the largest oil and gas expo in North America known as GO EXPO in Calgary Alberta, Canada. The mission was to promote the attractive elements of the Marcellus Gas Play and prospect oil field

service companies to come to our area. The trip familiarized us with the Canadian natural gas industry. This trip has secured Canadian companies in our area, but also exposed us to the immense economic impacts experienced via an oil and gas boom such as inflated land and housing costs. It allowed us to understand the industry with a perspective from both international and long-term economic results.

A critical economic result has been the immense demand for commercial property and housing. We are now experiencing new construction, and these properties are limited to areas that have adequate infrastructure. I have personally met with numerous contractors and developers who intend to construct new commercial, industrial and residential units in the area. The problem is land with infrastructure. The Progress Authority is sponsoring Recovery Zone bonds to help finance 2 new hotels and additions to 2 existing hotels. This should help with short-term room needs. The limiting factor for all new development is property with existing infrastructure.

When trying to emphasize the true economic impacts of the Marcellus Shale Gas Play, I believe it is critically important to point out the differences as opposed to the similarities of other gas plays in the United States and Canada which emphasizes the ongoing and tremendous impacts to our communities, specifically housing. There have been numerous studies by accredited institutions which provide insight as to what may happen in the Marcellus based on what has resulted in the other shale plays. PSU completed a recent May 2010 Economic Impact Study that indicates the Marcellus Shale may be the second largest tight gas play in the world. In most cases, these studies extrapolate data and attempt to forecast Marcellus impacts. Our research identifies the following critical differences.

Free hold minerals are at the base of the economic viability to landowners. This does not exist in all parts of the US and in fact, in Canada the minerals are owned by the Crown - thus the intense leasing activity and investment that affects individual property owners in northern Pennsylvania.

The Marcellus Shale gas quality has been 96 – 98% methane. This is due to very good thermal maturity of the shale. This eliminates down stream processing and added production cost. It is known as sweet gas, mostly free of hydrogen sulfide, which exists in other gas plays. It is

pipeline ready and improves profitability. We observed wind socks on Canadian compressor plants which is evidence of sour gas.

Pipeline infrastructure exists with the Millennium Pipeline to the north, the Stage Coach connecting to the Tennessee Pipeline and project 300 upgrade; the Transco to the south with the proposed Marc I line connecting the major lines and creating a hub in the Marcellus region. Numerous other pipelines are being considered. The pipeline network that exists leads to the largest user of natural gas in the US, the east coast/megalopolis. The development of a hub in the northeast will allow for the wheeling of gas into numerous markets, thus expanding the sale and marketing of natural gas.

Quality and quantity of the play and market location are the key to the economic strength of the Marcellus play. Other broader financial variables go beyond the immediate production of natural gas to market. Recent sales of oil and gas companies' valuation included natural gas reserves and land held by production, both of which enhance stock values beyond the immediate sale of natural gas. This will sustain drilling a lot longer in the Marcellus Region should natural gas values decline further.

The Progress Authority has developed a special scope of work that for the first time attempts to quantify and measure the actual economic impact. This will go beyond previous studies that extrapolate information to our situation. The Progress Authority, in partnership with Penn College and Penn State University, has finalized a special study proposal which will build a model to measure impacts. Much like Penn College's workforce model based on a drilling rig count variable, the Progress Authority model will rely on specific measures, such as permit activity, water utilization, productive wells, leasing activity, etc. to harness the economic impact, thus community housing needs.

Perhaps one of the greatest long term impacts has yet to be determined or realized. This is the utilization of this natural resource in a value-added effort. This is energy generation as our rate caps are removed at the end of 2010.

Stable electric costs will sustain and attract new business investment, thus diversifying and strengthening the local business and employment sectors. Also, key manufacturers that utilize natural gas in their processes could be secured for greater investment and business diversity as a long term benefit but greater impact on infrastructure and housing.

Finally, on June 26, 2010, The Authority and partners sponsored the first Northern Tier Business To Business Expo, held at the Troy Fairgrounds. This Expo intended to expand business opportunities for local companies and build business relationships with the gas industry. With major sponsors secured, we had to cut off at 255 exhibitors who were excited at the opportunity to attend and network, and our 2011 Expo has great interest.

A key measure of drilling activity is the filing of permit applications in 2009. Bradford County was 2 – 1 against any other County. There were 429 applications filed for 2009 and as of Wednesday 9/22/2010, there are 678 for the first nine months of 2010.

Finally, with the initiation of a new census old data cannot measure the impacts of this recent economic boom. However, the Center for Workforce Information and Analysis recently released a March 2009 to 2010 comparison and they reported the Bradford County unemployment rate has fallen from 10.0% to 7.4%. Knowing the activity level at this time, I believe it has fallen further as a result of interfacing with local businesses. Additionally, Bradford County leads the state of Pennsylvania in new job creation with 2,000 more people employed than one year ago. Our only way to support this growth is with resources for infrastructure from supplemental government sources.

Thank you again for the opportunity to present our findings to the committee. I am available for any questions.