



TESTIMONY OF MARTIN J. DURBIN

PRESIDENT AND CEO, AMERICA'S NATURAL GAS ALLIANCE

on

**AMERICA'S ENERGY REVOLUTION:
A NEW PATH TO JOBS AND ECONOMIC GROWTH**

before the

Committee on the Budget

**UNITED STATES HOUSE OF REPRESENTATIVES
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Chairman Ryan, Ranking Member Van Hollen and members of the committee, thank you for the opportunity to testify on behalf of America's Natural Gas Alliance (ANGA) and its member companies.

My name is Marty Durbin. I am President and CEO of America's Natural Gas Alliance, which represents North America's largest independent natural gas exploration and production companies. Our mission is to promote the growing demand for and use of our nation's vast domestic natural gas resources. In pursuing this mission, ANGA works with industry, government and customer stakeholders to ensure the continued availability and increased use of our natural gas resources for a cleaner and more secure energy future.

I appreciate the opportunity to join this timely discussion on how the nation's vast domestic energy resources are revolutionizing not only the energy game, but also the path to jobs and economic growth for our country as a whole.

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Summary

Just as natural gas is a foundation fuel in terms of our energy use, so is the natural gas industry a foundational engine of U.S. job creation and economic recovery. The industry

contributes \$113 billion annually in government revenues, supports 3 million American jobs and contributes \$440 billion each year to the nation's economy.¹

This contribution is made possible by technological innovations, led by hydraulic fracturing with horizontal drilling, that are allowing our nation to safely and responsibly access vast domestic reserves of shale gas that lie typically a mile or more below the earth's surface. Our natural gas resources exist in such abundance that the United States has transitioned in just a handful of years from being a net importer² of natural gas to the world's largest producer of this clean energy source.³

There is now a broad consensus that the U.S. has enough natural gas to meet our nation's growing energy needs for generations to come. This abundance has made possible stable, affordable prices for natural gas consumers. Unlike any other fuel, natural gas is used in every part of our economy - electricity generation, residential and commercial uses, manufacturing feedstock and energy needs, as well as transportation fuel – allowing natural gas to deliver value throughout the fabric of our entire economy.

America's newfound abundance of natural gas has fundamentally transformed the outlook not only for our economy, but also for our nation's energy security. Market

¹ "The Contributions of the Natural Gas Industry to the US National and State Economies" ANGA/IHS, 2012.

² AEO 2005 vs. AEO 2012.

³ "Annual Energy Outlook", EIA, 2013.

forces are helping deliver substantial contributions not only to the U.S. Treasury but also to core national priorities. Among the highlights, natural gas:

- Contributes \$113 billion annually to federal, state and local government budgets;
- Supports 3 million American jobs;
- Is projected to help create nearly 1 million U.S. manufacturing jobs by 2025;⁴
- Is primarily responsible for a reduction in U.S. power sector carbon emissions to levels not seen since 1994;⁵
- Along with rising domestic oil production, is delivering profound strides in the nation's energy self-sufficiency and security; and
- Is delivering \$926 in annual savings to the average U.S. household—savings in both electricity and home heating costs. And, this figure is expected to grow to more than \$2,000 per year by 2035.⁶

This impressive performance is made possible not only by the abundant supplies of natural gas, but also by policies that encourage safe and responsible development with appropriate state-led oversight of this clean, low-cost American energy source.

To maximize these benefits to our nation, government should exercise caution in imposing unnecessary costs on an American industry that is providing so much economic value. To do so would have a negative ripple effect through our economy and

⁴ "Shale Gas: A Renaissance in US Manufacturing?. National Association of Manufacturers and PriceWaterhouseCoopers, 2011.

⁵ EIA June 2012 Monthly Energy Review.

⁶ "Economic and Employment Contributions of Shale Gas in the United States." IHS, 2011.

diminish the contributions our natural gas industry can make not only to government revenues but also to the U.S. economic recovery as a whole.

Domestic Energy Development a Rare Bright Spot in U.S. Economy

Shale energy, including both domestic natural gas and oil development, has been one of the brightest spots in our economy over the past five years.

The growth we've seen and the opportunity ahead come from the development of so-called "unconventional" natural gas resources, chief among them shale gas. Shale gas was 35% of natural gas production in 2011, and it's predicted to reach 52% by 2040.⁷

To offer a sense of the magnitude of this opportunity: In 2011, total capital expenditures for the natural gas industry as a whole reached \$109 billion.⁸ In 2025, that figure will rise to \$123 billion—for shale and other "unconventional" natural gas resources alone.

This is an economic stimulus that will provide significant additional revenues to government at all levels.

In addition, roughly half of all natural gas-related jobs today are powered by shale resources. More than 800,000 additional jobs will be created by 2025—again by shale

⁷ EIA Annual Energy Outlook: 2013 Early Release.

⁸ "The Contributions of the Natural Gas Industry to the US National and State Economies," ANGA/IHS 2011.

and other unconventional natural gas resources alone.⁹ It should be further noted that the high quality of jobs created through shale gas is reflected in above-average pay—with direct jobs spread across 31 shale gas-producing states paying \$23-plus per hour.

U.S. Employment-Unconventional Natural Gas (2010-2025)¹⁰

	2010	2015	2020	2025
Direct	237,968	333,776	403,472	400,958
Indirect	327,000	479,488	593,817	598,497
Induced	443,693	650,185	797,485	812,499
Total	1,008,661	1,463,449	1,794,774	1,811,954

In addition to those employed directly in the natural gas industry, indirect employment tallies those who work in related industries in the natural gas supply chain. Induced jobs represent jobs created by the spending of the first two categories. These are conservative figures that do not take into account the many unrelated American industries that are flourishing in an environment of low-cost natural gas. These include the estimated one million manufacturing jobs that are forecast to be created through 2025 because abundant, affordable natural gas is making American workers and U.S. companies more competitive in the global marketplace.

Natural Gas Contributes \$113 Billion Annually in Government Revenues

In 2011, natural gas contributed nearly \$113 billion in government revenues. In addition to \$53 billion to the U.S. Treasury, this included \$58 billion in contributions to state and

⁹ “The Economic and Employment Contributions of Unconventional Gas Development in State Economies,” ANGA/IHS, 2012.

¹⁰ “The Economic and Employment Contributions of Unconventional Gas Development in State Economies,” ANGA/IHS, 2012.

local budgets¹¹—helping fund schools, law enforcement, hospitals and other local priorities. For this reason, you see governors across the political spectrum, from red states and blue states alike, enacting laws and regulations that encourage responsible energy development in their states. Additionally, the government—like all natural gas consumers—has enjoyed substantial savings from reduced operating costs associated with low-cost natural gas.

Here is the 2011 breakdown of government revenues from the total natural gas industry:¹²

- Federal Taxes: \$53 billion
- State and Local Taxes: \$58 billion
- Federal Royalty Payments: \$2 billion
- Total: ~ \$113 billion

Similar to the employment and capital expenditure projections, shale gas will drive future growth in government revenue contributions at all levels of government. In fact, federal, state and local government revenues from shale and other unconventional gas production will almost double from 2010 to 2025.¹³

¹¹ “The Contributions of the Natural Gas Industry to the US National and State Economies,” ANGA/IHS, 2011.

¹² “The Contributions of the Natural Gas Industry to the US National and State Economies,” ANGA/IHS, 2011. Note: This study covers the natural gas industry as a whole (onshore and offshore, conventional and unconventional resources).

¹³ “The Economic and Employment Contributions of Unconventional Gas Development in State Economies,” ANGA/IHS, 2012.

GOVERNMENT REVENUES—UNCONVENTIONAL NATURAL GAS (2010-2025)¹⁴

\$ BILLIONS	2010	2015	2020	2025
Federal Taxes	16.5	24.2	29.7	30.3
Corporate Taxes (federal)	3.7	5.5	6.7	7.0
Personal Taxes (federal)	12.8	18.7	23.0	23.3
Federal Royalty Payments	0.9	1.2	1.2	1.5
State and Local Taxes	16.4	23.9	28.8	31.1
Corporate Taxes (state & local)	10.5	15.6	19.0	19.7
Personal Taxes (state & local)	2.2	3.2	3.9	4.0
Severance Taxes (state & local)	2.6	3.6	4.1	5.0
Ad Valorem Taxes (state & local)	1.1	1.6	1.8	2.3
Total Government Revenue	33.8	49.3	59.8	62.9

American Natural Gas Abundance Key to U.S. Economic Recovery

In setting sound fiscal policy, it is imperative to consider not just industry jobs, investment and government revenue, but also the far more broad and positive impact that abundant, affordable natural gas is having throughout our economy. Unique among our nation's energy choices, natural gas is used in every sector of our economy, through its prominent roles in electricity generation, industrial and manufacturing fuel uses (generally referred to as "feedstock"), residential and commercial uses and as a transportation fuel.

Natural gas accounts for more than 25% of our total energy use in the United States.

The fact that domestic dry gas production has increased 20% since 2008,¹⁵ and wellhead

¹⁴ "The Economic and Employment Contributions of Unconventional Gas Development in State Economies," ANGA/IHS, 2012. Note: This is a tally of government revenues associated solely with unconventional natural gas development. As such, these figures represent a subset of overall natural gas industry government revenue contributions, which totaled approximately \$113 billion in 2011.

¹⁵ "Annual Energy Outlook," EIA, 2013 & "Annual Energy Review," 2012.

prices have been reduced by roughly half since 2008 has had a profound effect on the competitiveness of a wide variety of American industries.

Electricity Generation

- Natural gas accounts for 24% of our electricity generation as of 2012;¹⁶
- Electricity users on average have saved 8% since 2008 thanks to reliable, abundant and affordable supplies of natural gas;¹⁷ and
- Natural gas' cleaner profile across a broad array of emissions is allowing utilities throughout the country to more cost-effectively achieve environmental goals.

Manufacturing Feedstock

- Natural gas accounts for 26% of energy used in the industrial sector, including feedstocks;¹⁸ and
- More than \$110 billion of new or expanded manufacturing projects have been announced through 2018 with low natural gas prices cited as the reason for the additional capacity.¹⁹ This is a manufacturing renaissance including chemicals, plastics, fertilizer, steel, aluminum, tires and more.

¹⁶ "Annual Energy Outlook," EIA, 2013.

¹⁷ "Annual Energy Outlook," EIA, 2013 & "Annual Energy Review," 2012.

¹⁸ "Annual Energy Outlook," EIA, 2013.

¹⁹ Company announcements, 2011 through May, 2013.

Residential/Commercial Uses

- Natural gas accounts for 64% of energy used in heating;²⁰
- Natural gas consumers have saved more than 30% in heating costs since 2008.

This includes savings related to space and water heating, as well as appliances, such as stoves and gas dryers, and these savings free up cash flow to spend elsewhere.²¹

Transportation

- Natural gas comprises 0.1% of energy used in transportation. However, its use in this sector is expected to grow significantly over the next decade;²²
- Natural gas is the lowest cost transportation fuel available on the market today. Between 2010 and 2012, the average price of compressed natural gas was \$1.20 less than the gasoline gallon equivalent;²³
- For this reason, leading U.S. companies from Waste Management to AT&T to UPS are converting their vehicles to run on affordable, American natural gas;
- Additionally, one in five city transit buses now run on natural gas, with one in three new transit bus purchases being CNG vehicles;²⁴
- Up to 30% of the nation's trucking fleet may run on natural gas by 2020;²⁵

²⁰ EIA, "Annual Energy Outlook," 2013 & "Annual Energy Review," 2012.

²¹ EIA, "Annual Energy Outlook," 2013 & "Annual Energy Review," 2012.

²² EIA "Annual Energy Outlook," 2013.

²³ Compiled data from "Clean Cities Alternatives Fuels Price Reports", June 2010 to July 2012.

²⁴ "Transit on the Cutting Edge of Clean Technology," American Public Transportation Association, September, 2012.

²⁵ "Energy 2020: Independence Day," Citigroup, 2013.

- And, just yesterday, ANGA unveiled four demonstration dual-fuel passenger vehicles. They run on both gasoline and natural gas. Their purpose is to show the potential range of consumer choices—from luxury SUV to muscle car to commuter vehicles—that have the performance American consumers expect, while adding the fuel efficiency and significant cost savings that natural gas has to offer.

Strong National Interest in Constructive Policies

Given the extraordinary contributions that American natural gas is making to our nation, we must ensure that federal policy allows this incredible record of success to continue.

Two areas of significant potential impact are tax policy and export policy.

Natural gas development is a highly capital-intensive industry, and like all other capital-intensive industries, cost recovery is critical to the industry's success; it is not a handout, a loophole or a subsidy. Erasing the Intangible Drilling Costs deduction would have a significant negative impact in both the short term—primarily on U.S. manufacturing and industrial consumers who rely on affordable natural gas to remain competitive—and the long-term, where it is projected that government revenue would decrease significantly beyond a 10-year time horizon.

Export policy is another opportunity for the government to signal to the marketplace that U.S. policy is disciplined both in support of natural gas and in support of the

principle of free trade. The Department of Energy’s approval of the Freeport, TX, LNG export terminal is a positive sign. Timely approval of the remaining export permit applications is needed to continue this progress, improve the U.S. trade balance and make significant headway toward the bold national objective of doubling U.S. exports during this decade. Without affordable and abundant natural gas, this topic would not even be part of our nation’s dialogue. Free trade principles, technology advancement and fair tax policies will allow us to continue this success story.

Conclusion

Natural gas is one of the bright spots in our economy, and it’s important that we pull in a consistent and constructive direction to continue this progress. ANGA’s member companies are part of an industry that contributes \$113 billion per year to federal, state and local government. Equally important, our industry supports 3 million American jobs.²⁶ Natural gas also is making strides in the nation's energy security, and it is a primary reason that U.S. energy sector carbon emissions are at 20-year lows. We believe that allowing markets to continue to deliver this huge stimulus to communities across the nation is an essential component in our ongoing economic recovery—and will ensure an appropriate balance that both delivers ample revenues to government and ensures natural gas can continue to be a foundation of U.S. job creation and economic growth for decades to come.

²⁶ “The Contributions of the Natural Gas Industry to the US National and State Economies,” ANGA/IHS, 2011.