**Marcellus Shale En Banc Hearing**
**Thursday, April 22, 2010**

**Testimony of: David J. Spigelmyer**
**Vice President, Government Relations**
**Chesapeake Energy Corporation**

**Good afternoon Chairman Cawley, distinguished Commissioners and staff of the Pennsylvania Public Utility Commission. My name is Dave Spigelmyer, I am Vice President of Government Relations for Chesapeake Energy and I serve as First Vice Chairman of the Marcellus Shale Coalition. I thank you for allowing me this opportunity to address the Commission at this En Banc hearing and I look forward to answering your questions.**

**The Marcellus Shale is not new to Pennsylvania; in fact this formation is some 380 million years old and rests atop the Onondaga formation some 7,000 to 8,000 feet below the surface in the Commonwealth. The conventional natural gas production industry has been drilling in the Commonwealth and logging the potential for additional natural gas development for years. For information purposes, the Marcellus is the organic silt and mud layer that fell to the bottom of the prehistoric lakes that existed to the west of the Allegheny thrust. Estimates of supply have been suggested to be as high as 500 TCF, with more than half of that recoverable with today's technology. Although we have drilled into and through the Marcellus for years, it is the technology enhancements in horizontal drilling techniques that have made drilling into tight shale formations a profitable business opportunity. Many in this room may believe we actually drill into open caverns or pockets in the earth's crust to produce the natural gas. This is not the case. The Marcellus is a very dense shale that contains pore spaces that hold vast amounts of natural gas—in fact, early production results from horizontal drilling for natural gas here in the state have been outstanding and may well change the way we think about the end use applications for this home grown fuel.**

**In 2008, conventional Pennsylvania natural gas producers drilled some 4000 natural gas wells into shallow formations across the southwest, northwest and central regions of the Commonwealth. They produced some 182 BCF of natural gas, providing only 24% of the nearly 810 BCF of natural gas Pennsylvanians consume. As each of you know, the remainder of that natural gas was transported into Pennsylvania from the Gulf Coast states or the Midwest to meet our region's demand for natural gas. You know better than I that long haul transportation rates make up a significant portion of a consumer's natural gas bill, adding as much as $2/MCF for transporting the commodity to a home or business. Based upon early production activity from horizontal drilling operations in Pennsylvania and West Virginia from the Marcellus, I believe we have a "game-changer" on our hands in terms of natural gas production. Based upon early production figures, if the horizontal drilling industry can continue to ramp up production to a level of 2500 to 3000 horizontal wells being drilled each**

**year, by 2014 we will become natural gas independent and become a net exporter of natural gas from this Commonwealth, meeting the needs of our residents and industries while supplying a domestic, abundant, affordable and environmentally clean product for consumers of this Country. The Commission indeed can benefit consumers in the long-term by encouraging more locally produced gas into the utility operations across the Commonwealth.**

**However, contrary to many reports that Pennsylvania operators are reaping huge rewards today from Pennsylvania production, the reality is that we are investing in the infrastructure necessary for the long-term and sustainable growth of the Marcellus industry. The subject matter of this hearing is spot on, that the industry will need additional midstream pipeline capacity to move this Marcellus gas to the long-haul pipelines that transport natural gas to market. And yes we agree that it must be done safely and with the utmost of environmental care as we build the necessary infrastructure to bring America's cleanest fossil fuel to the burner-tip. Companies that are part of our coalition have already invested some $10 billion to take leases for drilling operations, build wellsites and pad locations, build compression to move the gas through the pipeline systems, and construct the necessary stripping capacity to take out the heavy hydrocarbons from areas where co products to the natural gas stream exist.**

**Most importantly, we are also building the necessary staff to serve our industry in meeting the nation's natural gas needs. As many in this room know, I have worked in the Commonwealth for nearly 27 years while serving in the pipeline and utility sector of the natural gas industry. I joined Chesapeake just a year ago as employee number 220. Today, Chesapeake has staffed to a level of 1023 Pennsylvania direct employees serving our business. We also employ thousands of contract laborers, many of them Pennsylvanians, to support our business. The Penn State Economic Report, "An Emerging Giant: Prospects and Economic Impacts of Developing the Marcellus Natural Gas Play" projects that in 2010, our direct and indirect employment in the Commonwealth will rise to some 107,000 employees serving the Marcellus.**

**Shale plays across the United States, like the Marcellus, have changed the outlook for natural gas supply long-term and Chesapeake believes will lessen the price volatility that has existed in a tight supply market over the past decade. In fact, during the 2008 and early 2009 oil price spike, we witnessed the decoupling of natural gas from a price standpoint. Today, natural gas is by far one of our country's best energy values on a per BTU basis.**

**In direct response to your questions submitted to those participating in today's hearing, I offer the following on behalf of Chesapeake:**

**1. Question: What is the origin and ownership of gas entering your pipeline?**

Answer:  Nearly all of the natural gas in the pipeline will be produced by the Marcellus operator, and their joint-venture partners if applicable.   However, it will likely be common practice that Chesapeake’s midstream operations will gather gas for other operators in the area and move it to an interstate pipeline.  The midstream operator, if different from the producer, will not take title to the gas.

**2.  Question:  Will we sell any gas to an end user or have direct sales to end-use consumers?**

Answer:  Highly unlikely.  We generally sell to wholesale customers through an interstate pipeline and understand that if we intend to sell gas to end-use consumers this could be subject to PUC jurisdiction.  However, current regulation does allow for free-gas consumers to be served off of a well line or gathering facility and in the event a producer does have a free gas consumer on their system, we do not believe this is a PUC jurisdictional activity.

**3. Question:   Will any of the gas be delivered to an interstate pipeline and at what point will the title to that gas transfer?**

Answer:  Clearly we will deliver Marcellus gas into interstate pipelines as they are the primarily conduit to deliver gas into the market.  Interstate pipelines seldom take title to the gas, on a rare exception however; title may be taken by an interstate pipeline to use a small amount of gas to balance their system.  In the case of Chesapeake’s production, Chesapeake Appalachia L.L.C. will retain title to the gas until the point of sale.

**4. Question:  Do we expect our gathering lines to be directly tied into an LDC?**

Answer:  It is not the intent of Chesapeake to tie directly into a local distribution company.  However, there may be times when it is environmentally sound and cost efficient to avoid additional pipeline development to provide wholesale sales to a public utility.

**5. Question:  Will processing facilities be considered a public utility service and subject to PUC jurisdiction?**

Answer:  Processing facilities treat/manufacture natural gas for delivery into an intra or interstate pipeline system and therefore are not a public utility service. Processing facilities are regulated for safety by the Occupational Safety and Health Administration (OSHA).

**6. Question:   Do you intend for your pipelines to be subject to PUC oversight?**

Answer:   We are aware that the Pennsylvania PUC is indeed working to expand their safety jurisdictional oversight.   Chesapeake certainly supports the PUC’s efforts to gain federal “Agency Status” to audit and enforce the requirements of 49 C.F.R. 192.8 and 9 we are willing to pay a fair fee based upon the workload requirement of staff.  However, we believe the assessment should be based upon a fair per mile fee and should mirror the fee structures of neighboring states performing similar safety inspections subject to DOT 192. Any fee structure should also be capped to collect only the funds necessary to pay for the program.

All pipelines defined by 49 C.F.R. 192 should be subject to Pennsylvania One Call requirements. Chesapeake fully supports Pennsylvania One Call and believes this to be the best approach to avoid dig-ins to existing infrastructure and provide safety for the public.

**7. Question: Do we believe the term "public utility" requires further definition?**

Answer: No. If the Pennsylvania PUC does indeed acquire federal “Agency Status” for pipeline safety review, we look forward to working with the agency.

**8. Question: What impact will Marcellus production have on Pennsylvania consumers and should we encourage more local natural gas into the utility market in the Commonwealth?**

Answer: As stated in my testimony, only 24 percent of Pennsylvania's natural gas supply came from locally produced gas. Based upon the projected upswing in Marcellus well activity, reaching a projected equilibrium of 2500 to 3000 wells per year, Pennsylvania will become a net exporter of natural gas by 2014. Natural gas production volumes can be a game changer for Pennsylvania utility customers by saving customers a portion of the $1 to $2 in demand charges they currently pay to move gas through the interstate systems to their burner tip. Marcellus production will soon be sufficient to offset much of the long-haul pipeline requirements and can save Pennsylvania consumers millions! In fact, some wells are producing in excess of 6 MMCF/ day, enough gas from a single well to fuel nearly 24,000 homes annually. As stated previously, the industry is intent in building the infrastructure and investing billions in order to bring that value to Pennsylvania long-term. Also, to the extent that propane and other natural gas liquids are extracted from the gas stream in Pennsylvania, these products will likely be sold locally and again eliminate the transportation costs necessary to bring those products from the Gulf Coast.

**9. Question: Where does the responsibility fall for safety inspecting non-jurisdictional interstate transmission facilities--PUC, DOT, other?**

Answer: All of our gathering facilities located in a Class 2, 3, or 4 are currently subject to 49 C.F.R. 192.9 are subject to United States Department of Transportation pipeline safety review and oversight.

**10. Question: At what point on the gathering system should PUC resume safety oversight?**

Answer:  If the PUC is granted “agent status”, the agency should enforce the existing requirements of 49 C.F.R. 192.

**11. Question:  How should the agency recover their costs for safety inspection?**

Answer: on a per mile fee that is reflective of what other states assess for similar services.  Those costs should be billed at least once annually and be capped at the total cost of the program allocated equitably between all of the operators.

**12. Question:   What is the PUC's role in siting of pipeline facilities?**

Answer:  We believe that siting of gathering facilities falls outside of the PUC’s jurisdictional authority and should be subject to working agreements between the pipeline company and property owners.