



JUST THE FACTS

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The Pathway to Making Pennsylvania the Keystone to America's Energy Future

As Pennsylvania turns the page on a new year, including the inauguration of a new governor and the swearing in of about 50 new members of the legislature, it makes sense to take a fresh look at a number of important and positive energy developments in the Commonwealth that have the potential to grow the state's economy, provide jobs and improve our country's energy security. The benefits to Pennsylvania of a strong energy sector cannot be underestimated, and in turn can be realized, with policies that recognize this importance and value.

Some of these opportunities are immediately apparent, others can be achieved in the short-term and a few are projected for the future, but they can continue to make the Commonwealth one of the nation's leaders in energy production, manufacturing and promising technologies.

Here is a summary:

Royal Dutch Shell's Potter Township cracker is now producing the plastic pellets that are essential to more than 6,000 consumer products, medical equipment and much more – the start of a long-term investment that will drive growth in our region. A cluster of manufacturers that process these pellets can be expected in the years ahead. According to U.S. Department of Labor statistics, Beaver County has already seen an uptick in economic activity, commencing with the start of the cracker's construction in 2015, with job growth in the county outpacing others in the region by four times, and with wages rising three times faster than the rest of the region. Additionally, manufacturing in Beaver County grew by more than 27% between 2016 and 2020, according to the most recent data available from the U.S. Bureau of Economic Analysis.

A second positive policy development enacted by the legislature and signed by Gov. Wolf is the one percent cut in the state's Corporate Net Income Tax, along with recent increases in state impact fees after an expected reduction due to a slowdown during the COVID pandemic. Impact fees for 2021 are expected to reach \$234.4 million, among the highest in the program's 10 years.

Oil and natural gas production trends in the Commonwealth offer positive signs for 2023, with new oil and gas wells being recently spudded at a steady pace. Spud reports show more than 320 unconventional gas wells being started in a five-month period in late 2022, along with 106 conventional oil wells. The benefits of a healthy conventional and unconventional industry in Pennsylvania – in employment, economic investment and domestic energy production – should be clear as we enter the new year.

A potential new LNG export facility in Philadelphia could also open a significant market for Pennsylvania's producers. Penn American Energy Holdings, LLC, has been working for several years to evaluate siting a facility along the Delaware River that would export 7.2 million metric tons of LNG/year. The company recently signed an agreement to certify its methane emissions and operations meet MiQ standards, another important step in its final investment decision, expected in 2024. Appalachian Basin industry experts agree that an increase in LNG exports from the Philadelphia area is one of the most important opportunities for the region.

Longer term, the preliminary work to establish four hydrogen hubs in the U.S. is moving forward with the \$8 billion allocation to the U.S. Department of Energy included in the 2021 Federal Infrastructure Act. Two potential proposals for a hydrogen hub in the Appalachian Basin are in the early stages of development, with both overlapping to include the three-state region.

Outgoing Gov. Tom Wolf expressed his support for a regional hydrogen hub in a recent interview with the Pittsburgh Business Times, stating “that would be a huge game changer for Pennsylvania, for that industry. I think it is really an appropriate thing for Pennsylvania to be looking to do, as the steel industry would be transformed by that kind of investment. Because of what the federal government is doing, we can think very expansively about what the future would look like.”

There remain challenges, of course, to fully realizing Pennsylvania’s energy development potential. New pipelines and infrastructure are essential to support LNG export facilities and to provide much-needed supplies of natural gas to areas with unmet demand, including the long-standing problems in New England and those that are quickly emerging in the southeastern U.S.

Closer to home, Pennsylvania’s environmental laws and regulations must provide responsible certainty for all industries, but particularly for the oil and natural gas industry. When legislators pass laws, our regulators must implement policies and procedures that effectuate and operate within the law, while intimately sourcing factual and diverse perspectives from those involved to ensure the intended outcome of the law is achieved.

Significant environmental and operational differences exist between conventional and unconventional/vertical and horizontal resource development within Pennsylvania’s oil and natural gas industry, and understanding these differences is fundamental to regulating them effectively. DEP is failing in this category which in turn is failing the responsible development of our state’s plentiful oil and natural gas resources. Time and again, DEP has shown its reluctance to take advantage of the industry’s breadth of knowledge and experience available on the many legislatively created advisory boards, committees and councils to learn from its wealth of knowledge.

The Commonwealth should also look to determine how to best transition the oil and gas program from solely being funded by permitting fees and fines to having dedicated funding from the state’s General Fund, as is the case with other DEP regulatory programs. The current funding structure presents a potential conflict of interest that prevents a balanced regulatory treatment of the industry and cannot be ignored.

Finally, reversing the imposition of the Regional Greenhouse Gas Initiative (RGGI) on Pennsylvania’s largest power plants and energy consumers remains a significant challenge that as of now seems within reach as the result of litigation commenced last year. RGGI remains on hold due to a Commonwealth Court injunction and our Supreme Court’s inaction on DEP’s appeal, and we are awaiting the Commonwealth Court’s decision on whether RGGI’s increasing costs constitute an unlawful tax or a lawful regulatory fee.

The Facts

A new governor and new legislative session in Pennsylvania, along with a new Congress in Washington, offer an opportunity to establish broad priorities to benefit our economy and better the lives of the state’s citizens. The U.S. witnessed the global interconnectedness of energy in 2022 with Russia’s unprovoked invasion of Ukraine and its continuing weaponization of its energy supplies against Europe, which rapidly spread to other parts of the world. Policy makers in Pennsylvania and the U.S. as a whole need to recognize the important role oil and natural gas play in our modern society – as an energy source and as the essential ingredients to thousands of important products – and take the steps to ensure our country can remain the dominant producer of these commodities.



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