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Pennsylvania Independent Oil & Gas Association

JUST THE FACTS

Reality Hits the "Just Quickly Produce More U.S. Energy" Crowd

Russia's invasion of Ukraine in late January had immediate ripple effects on the global energy market that caused prices to spike, stunning many U.S. officials - while leaving experts unsurprised. The nationwide spike in gasoline prices predictably turned to impassioned pleas for U.S. oil and gas companies to "increase production" as rapidly as possible. Biden Administration officials urged the industry to do "whatever it takes" to increase production quickly, and said the country's "strong domestic energy infrastructure" can support fast-tracking natural gas transportation.

While the three Appalachian Basin states already produce more natural gas than any region in the country, with much more in proven reserves, the obstacles for Pennsylvania somehow "instantly" produce more gas and help ease consumer anxiety about energy are considerable.

A few of those obstacles are highlighted below.

Capital, Regulations, Infrastructure

Unbeknownst to many people is the fact that the majority of Pennsylvania's producers are independent companies without deep pockets and in need of private investors to fund costly unconventional drilling programs. **Private equity firms that were eager to fund those investments a few years ago have all but stopped doing so today**.

In today's "hydrocarbon divestiture" environment and changing measures of an organization's Environmental, Social and Governance principles, oil and natural gas investments have lost their appeal to most equity firms.

The second obstacle that is especially significant in Pennsylvania is our state's regulatory burden and restrictive local zoning ordinances that make drilling for oil and gas and putting it in a pipeline more costly and uncertain. As PIOGA members know all too well, **local governments can change ordinances at almost any time to increase restrictions on drilling locations, pipelines and compressor stations**. In some cases, this lack of predictability has made energy development in areas with excellent potential economically risky. In others, it has put those areas off limits altogether.

Remember these days? The last time the price of gasoline in the U.S. was $1.69/gallon was around 2003-2004. The days of $2.00/gallon we experienced as COVID cases took off about two years ago are also long gone, with multiple factors contributing to the current high-price environment in the U.S. Pennsylvania's gas tax, the highest in the nation at $0.586/gallon, is certainly one of those factors.

Of course, even if large numbers of new Marcellus and Utica wells were drilled in our region, the opposition to the construction of interstate transmission pipelines needed to reach customers is only growing stronger. **Recent court rulings on pipeline projects**, such as those halting work on the last six percent of construction of the Mountain Valley Pipeline, and the Federal Energy Regulatory Commission's addition of an ambiguous climate change assessment on new pipelines (only to follow with a recent backtracking on that proposal, magically referring to it as a draft, only applicable to new projects), **are the polar opposite to developing policies that encourage oil and gas investment**.

Meanwhile, in states to our north and east, political opposition to new pipelines has resulted in huge price spikes and local moratoriums on new natural gas connections. Even if leaders in states like Massachusetts, New Jersey and New York started welcoming new pipelines, opposition from activists and some local communities make the prospect of building them far from a solid bet.

Changing to a "Whatever It Takes" Approach in the U.S.

Significant work needs to be done nationally and in Pennsylvania to encourage capital investment in oil and gas rather than stifle it, starting with a push to ignore activists' pressure to divest from the production of hydrocarbons. Federal, state and local governments must adopt regulations and ordinances that provide a predictable market in which to operate. Last, the hurdles being put in front of new pipeline projects must be dropped in favor of policies that recognize their critical importance in getting energy where it is in demand. **None of these, of course, can take place overnight, but the instability created by Russia's aggressive war against Ukraine puts a new focus on what the U.S. needs to do to improve our energy, economic and national security**.

Liquified natural gas from the U.S. can reduce Europe's dependence on natural gas from Russia. Two new LNG export terminals are being built here, with construction yet to start on 14 FERC-approved facilities. Six additional terminals are in the early filing stages at FERC. A total of 30 LNG import facilities are proposed in Europe. How the U.S. and EU countries proceed with the future construction of those important infrastructure projects is uncertain, but critical to improving energy security in Europe.

The Facts

The tragedy in Ukraine made it clear that **oil and natural gas** – which together make up 56 percent of the world's energy consumption – **are truly global commodities at the mercy of supply, demand, weather and international crises such as wars**.

Elected officials in the U.S., in the meantime, are trying to punch the gas pedal by encouraging more production here while also hitting the brakes through myriad policies that make production and transportation more costly or even impossible. **There is not a panacea to the current pricing situation, but it has shown how critical domestic energy production is to our national security and economy**.

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