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Testimony to the Environmental Quality Board
Concerning Proposed Chapter 78 Regulations
Warren, Pennsylvania

February 12, 2014

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INDEPENDENT REGULATORY
REVIEW COMMISSION

The Mission of the Pennsylvania Grade Crude Oil Coalition is to advance local economies and energy independence by promoting shallow oil and gas production in a safe and environmentally sound manner.

Testimony to the Environmental Quality Board
By Arthur Stewart

February 12, 2014

Good Evening,

I am Arthur Stewart, secretary of the PA Grade Crude Oil Coalition (PGCC). PGCC was formed, last year, by members of the conventional oil and gas industry.

PGCC welcomes you. Around us you will find grand scenery, natural resources, and good people. But like most rural counties in Pennsylvania we face difficult challenges.

Over the last 40 years our county's population has dropped from 50,000 to 41,000. I am president of our county's school board where a generation ago we educated over 11,000 pupils; today it is less than 5000. Our county is steadily losing jobs and our property tax and earned income tax revenues are not keeping up with increases in wages, health insurance and pension costs.

One of the solutions to these challenges is our natural resources. For over 150 years the harvesting of timber and oil and gas has anchored the economy of this and the many surrounding counties. In 1859 Colonel Drake drilled where the abundant crude oil was seeping naturally into Oil Creek. Today our conventional oil wells still produce that Penn Grade Crude, putting over 1/3 of a billion dollars directly into our local economies. Our conventional gas wells generate another 1/3 billion. Beyond that direct revenue, our conventional oil and gas industry spurs thousands of support jobs in refining, trucking, restaurants and so forth.

But conventional oil and gas is under challenge. New casing and E&S regulations have increased our costs. These costs and the low price of natural gas have strained the viability of new well drilling. Ten years ago we were completing over 4500 new conventional wells per year. That number has been steadily dropping to about 1000 last year.

Into this context come the proposed regulations. Tonight, we are here to meet the legal obligation, to test whether there is a compelling need for regulatory change, whether the economic costs of the new regulatory requirements are understood, and whether alternatives were properly considered.

Having carefully studied the DEP's documents, and having examined the DEP's underlying research via Right to Know Requests, PGCC concludes that the regulations fail all three tests.

As to compelling need, the regulations combine conventional and unconventional oil and gas operations. These are two completely different industries. And while there has been incredible change in the unconventional industry, there has been literally no change in the development and production of conventional wells. Regulations governing the conventional industry have been in place for 30 years, and missing from the DEP documents is any description

of when, where or how the existing regulations have proven inadequate. The new regulatory requirements impose significant changes on a conventional industry that is not broken.

The cost of the proposed changes is enormous. The DEP's Analysis fails in its fundamental purpose of advising you about those costs. For example, the new regulations require the removal of certain storage tanks. However, the DEP states that it does not know how many tanks will be involved... and so it simply states no cost.

And even where it does state costs, the DEP grossly underestimates the amounts. For example, in considering changes to tanks, the DEP estimate includes 1300 new tanks per year but forgets that the new requirements also apply to the over 150,000 existing tanks.

As to the cost of all the regulatory changes, the DEP Analysis tells you that the total burden to the conventional industry will be 5 to 12 million dollars. When PGCC corrects for the many items overlooked by the DEP we inform you the actual cost of initial compliance exceeds 1 billion dollars. Thereafter, the annual cost is several hundred million dollars per year. As to cost analysis, the DEP's document fails the test.

The final test is the consideration of alternatives. The DEP Analysis fails to look at alternatives that are currently in use, as well as alternatives that are permissible under Federal standards. And even though the Regulatory Review Act requires that specific questions be addressed for small businesses, the DEP Analysis entirely ignores those questions. As to alternatives, the DEP's documents fail the test.

We have worked hard to assemble our data. And while PGCC stands prepared to defend its research in litigation, we would prefer resolution by discussion. Thus we have prepared a detailed response to the DEP's Analysis. In that document we point out what costs the DEP overlooked and the basis for our cost conclusions. PGCC has also developed a list of proposed alternatives and exemptions that the law requires for small businesses. We will share these documents as part of the comment process.

The solution we seek is informed decision making. The DEP's blending of the conventional and unconventional industries prevents an informed analysis of the conventional industry. And in that confusion the DEP has overlooked the serious harmful impact that the proposed regulations will impose upon communities all across western Pennsylvania. We look for revised regulations which will separately oversee the conventional and unconventional oil and gas industries. We hope to accomplish this by informed discussion, and in that spirit we thank you for scheduling this extra hearing in our community.