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**NATURAL GAS—AMERICA'S NEW ENERGY OPPORTUNITY: CREATING JOBS, ENERGY,
AND COMMUNITY GROWTH**

**STATEMENT OF DENNIS HELLER, PRESIDENT AND CHIEF EXECUTIVE OFFICER,
STEPHENSON EQUIPMENT, INC., HARRISBURG, PENNSYLVANIA**

**ON BEHALF OF ASSOCIATED EQUIPMENT DISTRIBUTORS BEFORE
THE U.S. HOUSE OF REPRESENTATIVES NATURAL RESOURCES COMMITTEE'S ENERGY
AND MINERAL RESOURCES SUBCOMMITTEE**

FEBRUARY 27, 2012

Chairman Lamborn, Ranking Member Holt, and other distinguished members of this subcommittee, my name is Dennis Heller, and it is my pleasure to appear before you today both as a small business owner, directly impacted by energy shale development, and in my capacity as a member of Associated Equipment Distributors (AED) Board of Directors.

I am the president and chief executive officer of Stephenson Equipment, a company that sells and rents construction equipment and provides crane service, parts, and operator training at seven locations in Pennsylvania and New York. Stephenson Equipment has 120 employees.

AED is the trade association representing distributors of construction, mining, energy, forestry, industrial, and agricultural equipment. AED has more than 500 members, the overwhelming majority of which are small businesses. AED's average member achieves about \$40 million per year in revenues and employs 80 people.

I appreciate the opportunity to come before the Committee to discuss how my company is benefiting from shale energy extraction, the positive impact on the construction equipment industry, the impact on the broader economy, and guiding principles for policymaking in this area.

Impact of Shale Energy Development on Stephenson Equipment

Shale energy extraction has resulted in exponential business growth at Stephenson Equipment over the last two years. In fact, nearly 10 percent of my company's 120 employees have positions directly attributable to Marcellus Shale energy development.

Stephenson has benefitted on several fronts. Energy companies have invested substantial resources in building and expanding roads and highways for hauling sand, water, pipes, and other materials to and from the Marcellus Shale. Backhoes, pavers, and rollers are working across northern Pennsylvania providing the infrastructure needed to transport materials and workers to fracking sites. Additionally, Stephenson's rentals, part sales, and service calls have grown substantially.

Perhaps the largest growth is evident in crane sales. Stephenson Equipment offers a complete line of cranes and operator training. One of the hottest sellers is a crane mounted on a 10-wheel Peterbilt truck that is one of the core products used at fracking sites to handle pipe, coiling, and rig erection. These sell for over \$500,000 apiece. The sale and rental of these cranes, combined with

the parts and services business, has been a boon for my company and its employees. In 2009, we purchased 17 cranes for sale and rental and two years later, we purchased 55 cranes for sale and rental. The reason for the jump in sales is simple—the Marcellus Shale.

To give you an idea of the true economic impact of energy shale development on Stephenson Equipment, we just need to look at the numbers. In 2010, my company's revenues were \$61.4 million. The following year, we saw a 16 percent increase in revenues to \$73 million. Furthermore, my Pennsylvania locations generate more revenue and are more profitable than my New York locations because of shale energy extraction.

Shale Energy's Impact on the Construction Equipment Industry

Stephenson Equipment is not unique in having been positively impacted by the shale energy boom in the region. In preparation for this hearing, AED conducted a survey of its members in Ohio and Pennsylvania with operations in the Marcellus and Utica shale regions. The results provide a compelling snapshot of the impact that shale energy development is having on the equipment industry. Note however that the results discussed below only capture the impact on companies that participated in the survey and AED has not sought to project results across its broader membership.

Fifteen equipment companies with combined employment of 3,176 workers responded to AED's online survey, which was conducted between Feb. 17 and Feb. 22. Fourteen companies (93 percent of respondents) said some portion of their 2011 revenues was directly or indirectly derived from shale energy development. The total aggregate revenue from that activity for all respondents in 2011 was \$356 million. The average shale energy-related revenue was \$25.4 million per company. Anecdotally, several responding companies reported that 2011 was a record year in an industry that is still in a depression in other parts of the country where shale energy is not a market factor.

A 2008 economic study by Professor Stephen Fuller at George Mason University in Fairfax, Virginia estimated that, "[e]very dollar of direct spending for the purchase of heavy construction equipment generates a total of \$3.19 in economic impact – one dollar of direct spending and \$2.19 in indirect and induced economic activity from the re-spending in other sectors of the national economy of monies paid to equipment distributors." Thus, AED estimates the total economic impact of the aggregate revenues from shale energy activity reported by Pennsylvania and Ohio survey respondents at \$1.135 billion.

As might be expected, the equipment market activity is creating and sustaining many jobs. Survey respondents directly or indirectly supporting the shale energy industry report that an average of 24.7 percent of their workforce in Ohio and/or Pennsylvania is attributable to that activity. AED calculates that shale energy is supporting 574 jobs at the equipment distribution companies that responded to the survey.

According to survey participants, the shale energy industry and businesses that support it are utilizing the full range of equipment AED members sell, rent, lease, and service. Every segment of the dealer universe is being touched by shale energy; distributors who specialize in small equipment, such as skid steer loaders, and in specialty products are just as likely to benefit as dealers who sell heavy earthmoving equipment.

Not surprisingly, equipment distributors in Ohio and Pennsylvania overwhelmingly believe that the shale energy sector has the potential to be an economic game changer for the industry. Eighty-

seven percent of survey respondents said that if the shale energy sector continues to grow, it will have a significant and positive impact on their companies, allowing them to expand and add new workers. Thirteen percent said they expect the shale energy sector to have some impact but that it would not be a significant factor in their future success. It is notable that not a single respondent said they did not expect shale energy to have at least some positive impact on their company in the years ahead.

In addition to providing objective data, Pennsylvania and Ohio construction equipment distributors responding to the survey made the following comments about the impact of shale energy development on their companies, the industry, and the economy as a whole:

- "In 2011 alone our company hired 100 new people to serve this market which we have only been involved with for two and half years."
- "[Shale energy development has led to] the only growth of new jobs in western Pennsylvania since steel and other mills left in the 80's."
- "The shale gas industry has created many new job positions and will continue new jobs as we grow this segment. The contractors performing the work have been very responsible and very good to the local economy and Pennsylvania businesses. We are pleased with the care [with which] they manage job site safety, security and concern to protect the environment. Based on the shale market, we see future growth for our company combined with our suppliers."
- "[Our company] conducts business in the eastern Pennsylvania areas. To date we have not directly felt the shale energy impact although we feel strongly that if allowed to continue and/or to expand, either a direct impact or strong positive indirect impact will be felt by our company by way of rentals or sale of equipment."
- "We are seeing activity from the people getting royalty checks, the drilling companies and their contractors. The bigger potential long term impact is on people supporting those activities in hotels, restaurants, housing and other related businesses. We expect this to continue to grow IF the political environment allows that to happen."
- "If shale energy exploration is allowed to progress, the only unemployment we should see in Pennsylvania or Ohio will be those who do not want to work. Besides the temporary jobs created from drilling and pipeline work, permanent jobs will be created from proposed cracker plants and refineries. Safe exploration practices should be emphasized, but not at the expense of progress."
- "The shale energy sector is having a profound effect on my company. We are currently reorganizing our internal structure and facilities to accommodate the projected increase in business. After what our business has been through over the past several years in this challenged economy, Marcellus Shale is a needed shot in the arm. In addition to projected

revenues of \$1.5 million in 2012 from the shale sector, we are currently projecting capital expenditures for tooling and equipment in excess of \$1 million in order to position our company for future years in the Marcellus Shale play areas. The road to Marcellus Shale is paved with gold for all involved if our leaders do not get in the way!"

- "While driving demand for some of our products upward, it is also affecting the availability of skilled service technicians and mechanics. While such a scarcity is a negative in the short run, in the long term it increases the need for skilled workers and drives both employment and wages."
- "The developing shale gas opportunity in Ohio and Pennsylvania is increasing business activity and demand for construction products in all facets of our business - parts, service and sales. This positive impact will continue with direct benefits as long as well-sites and pipelines are constructed, and with continuing indirect benefits from the economic prosperity that results in infrastructure and commercial growth."
- "We have been anticipating an increase in our shale play related business for about nine months, and this business began growing for us in the fourth quarter of 2011. Over the next three to five years, we expect this business to grow exponentially, and we expect the business to be very demanding and very profitable. We have now dedicated two individuals full-time to manage old and new customer relationships, and we are developing expectations, procedures and systems internally to support this growing business segment. Much of the business will be rental, though we have sales opportunities associated with [original equipment manufacturers] that are providing equipment to the firms who are focusing on the shale play. Servicing the customer is our #1 priority, on their terms, which are different and/or more demanding than the average customer's. Risks do exist for us in this business, pertaining to how much inventory and how many personnel we dedicate to this business. Overall, we are thankful to see this business opportunity in Ohio, and we are hopeful that excessive regulation doesn't choke it off before we and the State of Ohio capitalize on the opportunities."

The Entire U.S. Economy Benefits from Shale Energy

The entire U.S. economy is reaping the economic benefits from energy shale development. According to an IHS Global Insight study prepared for the America's Natural Gas Alliance, the shale gas contribution to Gross Domestic Product (GDP) was more than \$76 billion in 2010. Assuming Congress permits shale energy development to continue, projections show this sector increasing to \$118 billion by 2015, and tripling to \$231 billion in 2035.

Additionally, the shale gas industry is creating a significant number of jobs. According to the same study, in 2010, shale gas supported over 600,000 jobs, which included 148,000 direct jobs in this country, nearly 194,000 indirect jobs in supplying industries, and more than 259,000 induced jobs. Over 63,000 of these jobs were in the construction sector, one of the hardest hit by the recession.

Importantly, with all levels of government struggling to generate revenues, IHS Global Insights found that in 2010 shale gas production contributed \$18.6 billion in federal, state, and local government tax and federal royalty revenues. By 2035, these receipts will more than triple to just over \$57 billion. On a cumulative basis, the shale industry will generate more than \$933 billion in federal, state, and local tax and royalty revenues over the next 25 years.

The Federal Government Should Stay Out of the Way

The economic and job creation benefits of energy shale development are clear. However, in order for the economy to reap the full reward from shale energy, the federal government must refrain from micromanaging the industry and defer to state regulators. It is AED's position that:

- Advancing technologies in horizontal drilling and hydraulic fracturing have made possible production of vast and previously unavailable reserves of natural gas and oil from shale. This has created hundreds of thousands of jobs, enhanced energy security, spurred economic growth, improved manufacturing competitiveness, and lowered the cost of energy to consumers. Public policy should facilitate and encourage continued development to the greatest extent possible.
- Other new methods of extracting oil and gas from shale should be pursued with continued aggressive research and development, and when economically viable, production.
- Balanced regulation is necessary to protect public health and the environment, while encouraging innovation and expansion in the shale energy industry.
- The benefits and impacts of shale energy development are best measured and understood at the state level. It should therefore continue to be regulated locally and not by the federal government.

Conclusions

The shale energy sector is flourishing and many sectors of the economy are reaping the economic benefits. The small companies that comprise the construction equipment industry, such as Stephenson Equipment, are seeing unprecedented growth directly resulting from shale energy development. However, imprudent government action could undermine the viability of this sector.

Policymakers must protect public health, safety, and the environment, while allowing the shale energy sector to continue to grow and prosper. Furthermore, bureaucrats in Washington must refrain from regulating the industry from their desks in the nation's capital and allow state governments to measure the benefits and impacts of shale energy development.

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