AED Government Affairs Office
121 North Henry Street
Alexandria, VA 22314
Telephone: 703.739.9513
Facsimile: 703.739.9488
E-Mail: aeddc@aednet.org

FEDERAL REGULATION: ECONOMIC, JOB AND ENERGY SECURITY IMPLICATIONS OF FEDERAL HYDRAULIC FRACTURING REGULATION

STATEMENT OF MIKE QUIRK, VICE PRESIDENT OF PRODUCT SUPPORT, WAGNER EQUIPMENT CO., AURORA, COLORADO

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

MAY 2, 2012

Chairman Lamborn, Ranking Member Holt, and other distinguished members of this subcommittee, my name is Mike Quirk, and it is my pleasure to appear before you today both as an executive at a Colorado company directly impacted by energy shale development, and in my capacity as vice chairman of Associated Equipment Distributors (AED) Board of Directors.

I am the vice president of product support for Wagner Equipment, a family-owned company that sells and rents Caterpillar construction equipment at 30 locations in Colorado, New Mexico, and west Texas. Wagner Equipment has 1,289 employees.

AED is the trade association representing distributors of construction, mining, energy, forestry, industrial, and agricultural equipment. AED has more than 500 members, ranging in size from small dealerships with one location and a handful of employees to larger companies with thousands of employees and dozens of locations across several states. However, the overwhelming majority of AED's members are small, family 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 Wagner Equipment

Shale energy development has allowed Wagner Equipment to recover from the recession and begin to grow once again. At the end of 2008, Wagner Equipment was in an economic free fall with no end in sight. For many years, we sold most of our equipment for use in commercial and residential development, road building, and other infrastructure projects. However, these markets dried up during the recession. As a result, we were forced to reduce our workforce by one-third, from 1,750 to 1,180 employees.

While the equipment markets on which we previously depended have still not recovered, demand from non-traditional markets, such as energy development, have helped us stop the bleeding and get our company back on solid footing. Currently, at least 20 percent of our revenues are attributable to shale energy development and the activity that surrounds it. Thanks to demand from the energy sector, Wagner has rehired all the available technicians we laid off since 2009. In fact, we are

working with local community colleges to train more qualified workers to meet our hiring needs, an unthinkable proposition just a few years ago.

Shale energy development has also allowed Wagner Equipment to expand operations. To better serve this sector, we are currently investing in new facilities (or enlarging current operations) in Bloomfield, New Mexico and in Pueblo, Colorado Springs, and Aurora, Colorado. This expansion will result in job creation and economic activity for local communities in the region.

Shale Energy's Impact on the Construction Equipment Industry

Wagner Equipment is not unique in having been positively impacted by the shale energy boom in the region. In preparation for this hearing, AED conducted an informal survey of its members with operations in Colorado, New Mexico, Wyoming, and Utah. 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. Thus, the impact on equipment industry is likely far greater than what we have been able to document.

Eleven equipment companies responded to AED's online survey, which was conducted between April 26 and April 30. All respondent companies 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 $230.5 million. The average shale energy-related revenue was $21 million per company.

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 equipment revenues from shale energy activity reported by the survey respondents at over $735.3 million.

As might be expected, the equipment market activity is creating and sustaining many jobs. Survey respondents report that an average of 29 percent of their workforces in Colorado, New Mexico, Wyoming, and/or Utah are supporting to that activity. AED calculates that shale energy is supporting more than 460 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 Colorado, Utah, Wyoming, and New Mexico overwhelmingly believe that the shale energy sector has the potential to be an economic game changer for the industry. Eighty-two 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. Eighteen 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, the 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:

- The energy and natural resource segments of our business have brought our company from a free fall to recovery mode. We are hiring and training employees as well as making significant capital expenditures after three years of recession and tight expense control. Our traditional commercial and residential construction, infrastructure and highway markets remain very weak. We feel very fortunate to have the shale energy development opportunity in our territory.

- 2011 [shale energy activity] was worth $10 million to our company. 2012 could be double that. We employ fifty people in the energy development area in eastern Utah. This could double or even triple if oil shale is allowed to develop.

- Our business (and that of our supporting contractor client base) is greatly impacted with the increase in the shale energy development. We rely heavily on this business to support our operations in eastern Utah and Wyoming (the same can be said for the contractors we support who operate and are located in these areas).

- Our employee count is down 50% over the last 4 years and much of it is due to the slowdown in western Colorado. If we could get expanded growth in the energy sector we would then be able to grow our business and add good jobs.

- The previous shale boom in western Colorado elevated the economy to a level not seen since the old uranium days. New development on extracting and processing would create another boom, generating substantial increases in jobs and construction in a variety of needed areas, bringing back many local contractors that have either gone out of business, or left the area for better opportunities.

- We are very supportive of energy development in the Rocky Mountain area!

- Operations in the West will continue to grow with the support of the shale industry.

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 companies that comprise the construction equipment industry, such as Wagner

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.