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Integrated Supplier of Industrial MRO Supplies

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On Thursday, March 14, 2013, at 10:00a.m., in Room 1324 Longworth House Office Building, the Committee on Natural Resources, Subcommittee on Energy and Mineral Resources will hold an oversight hearing on *“America’s Onshore Energy Resources: Creating Jobs, Securing America, and Lowering Prices.”*

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Who we are and how we got started!

We (my wife Nanette & I) started the company in 1980 as a general line supply house to support the manufacturing sector in South West PA. Our product line focus was MRO Supplies (**Maintenance Repair & Operational**). Our business was unique in that we were a “Go To” Business, we did not have a sales counter. Our sales people went out to the Customer to talk about the Customer’s needs. We filled those needs by identifying a product, we then did research to source the product, and then to deliver the product. Our products could vary from solid core plywood, nuts & bolts, safety supplies, paper products, plumbing and hardware and flowers. Yes flowers!! We have a customer that has 17 buildings within its campus. We found a grower who would plant the different varieties and colors of plants in January that our Customer wanted to plant in May. We did a quick conversion to our delivery van by adding 3 levels of shelves so we can haul more flats of flowers. Then we deliver the correct amounts and varieties of flowers to the different buildings as scheduled by the Customer. (They now spend \$8-\$10K a year on flowers!) I tell you this story because it shows our ability to be innovative and adaptive to create better ways to serve a Customer and to reduce their cost of operation. This is true entrepreneurship! Little did we know this experience would help us in our success with the Oil & Gas Industry (O&GI).

Business climate before Oil & Gas.

Our business was fair in 2008, we raised two children, put them through college and had our house paid for at the age of 52 and the business was not in debt. How did we do that? We live within our means! Life was comfortable, but we could see there was no future in the Industry Supply business for a mom & pop store. We had worked hard those last 27 years building relationships with businesses only to see them down sized and shipped off shore. We got our start in business as the steel industry was being dismantled and move off shore. It was a struggle, but we wanted the independence of being self employed business owners. We wanted to live the American Dream! In 2007 we did not want to encourage our children to come run the family business, the future was not bright. We did not want to see our kids sacrifice and struggle to make ends meet as we did.

Our neighborhood was pretty much the same as it had been since we were kids. Our home community of Mt. Pleasant Twp. was a small rural Pennsylvania farming community that was also a bedroom community for people who wanted to work in the city and mills but enjoy life in the country. We all knew each other and it was quiet. The biggest fear at the time for our Planning & Zoning people was how do we keep Wal-Mart from building a giant store on all this open farm land?

Marcellus Shale's first well was drilled, the Renz #1!

I remember really well my first impressions of the Oil & Gas Industry in our neighborhood. I had heard about this drilling rig on Sabo Road in Mt. Pleasant Twp. It was only 3 miles from our home so I took a ride out that side road to see the activity. It was the site of Renz #1, drilled by Range Resources (Great Lakes Energy was the name on the trucks & signs at the time). That first well was pretty far off the road and plenty of room for their trucks and equipment to be off the Twp. Road. The next few wells were on the same road, it was not pretty! They blocked roads with their oversized trucks, mud and ruts so deep the Twp. closed the roads for a short time due to the heavy loads they were hauling. I will say that Range Resources worked with the Twp. to fix those roads and get them open again. (I'll talk more about road improvements later.) The point that I want to make here is; the O&GI Industry's way of working was new to us. We have never seen rigs that large and that many trucks hauling drill pipe, sand & water before! The unconventional O&GI people came and drilled without consideration of the locals and explaining to them what they were doing and the fact that they (O&GI) had a right to harvest these resources. It was a lack of communications at first to say the least! It was an eye opener!

What are the benefits of the Marcellus?

It was a rocky start at first with all the locals complaining about O&GI. But there was something about this O&GI that intrigued me. I needed to study the O&GI further. I started reading on line articles and going to the websites of the trucks that I had seen in the area. What did they do in the industry? Then I started running into articles about how large by volume this play really is. How it could provide energy for the next 50 years. This could be a game changer for America! We could become energy independent!!! I read the articles, went to the same seminars that the O&GI were attending. I went to investment seminars to see what other people had to say about the Marcellus from their point of view. I talked with people from New Mexico (Four Corners area) & Pinedale Wyoming about their experiences with O&GI. I read about the potential for more pollution and emissions from the rigs and compressor stations, & I also read about how CNG burns cleaner with fewer emissions in our cars, trucks and at the electric power generation plants.

Could the low price and abundance of an energy source bring Manufacturing back to America? All the feedstock's that manufactures need will be close at hand along with cheap energy and a good skilled work force. The development would mean jobs in the O&GI as well as all the support industries and the manufacturing to follow.

I also considered the possibility that we could have a choice at the pumps. We, each American could choose if they wanted to buy petroleum products from a country that sends people to kill innocent Americans on our own soil or we could choose to buy CNG that was harvested from American resources by Americans!

These are my philosophical reasons to support American O&GI exploration. Is the O&GI perfect? Not everything is perfect? We have to weigh out the risk and benefits to decide. There are many things in our everyday life that we have to weigh the risk. They can be as simple as, "Is it safer to drive to Disney World or Fly?" "Which way will produces fewer emissions?"

Marcellus Shale Gas development is just good for America!

I developed a sticker to put on tool boxes, pick-up trucks and hard hats which I have one for all of you.



How has the Development of the Marcellus Shale helped SunnySide grow?

For 27 years my wife & I have tried to build a supply business that would give us a great income and provide for our families. It was hard with a limited number of Customers to go to for business. We decided to re-focus our business and products to the O&GI in early 2008. It was scary, but we believed the O&GI was here to stay. We started meeting people that worked in the O&GI and talking with them as to how we should build our business. At first the industry was difficult to understand or “hard to get your arms around”! Seriously, there are so many facets to the exploration of shale gas! Site development, environmental, drilling, perfing, fracing, completions, water transfer, equipment rentals, land services, production, pipe line, erosion control, truck escorts services, security, compressor stations, and processing plants! We ended up focusing on the midstream process, which includes supplies for the operation of compressor stations, processing plants and pipe line maintenance. The supplies are again what we call MRO, but specific to O&GI.

In 2008 we had 5 employees including my wife & me. Sales revenue was at \$1.1 million. From there it exploded! In 4 years we had a total of 15 people working at SunnySide, including both of our children Lisa & John with sales revenue over \$5 million.

Growth of Employees, Revenue, and Inventory

2008 we had 5 employees,
2011 October, 15 employees.

Sales Revenue

2007 revenue \$1.1 Million in sales
2008 revenue \$1.7 Million in sales
2009 revenue \$1.7 Million in sales
2010 revenue \$2.9 Million in sales
2011 revenue \$3.9 Million in sales
2012 revenue \$5.0 Million in sales

Inventory Increases

2007 \$46K
2008 \$60K
2009 \$110K
2010 \$203K
2011 \$536K
2012 \$ 652K

How has the Development of the Marcellus Shale helped SunnySide grow? (con't)

With the growth and the addition of our two children to our management team we knew we needed to make changes to handle the growth. We joined a nation organization called TAB The Alternative Board. TAB meets once a month with 6-8 other non competing businesses to talk about the issues at hand and once a month with the TAB meeting facilitator that we called our business Coach. This worked well for the first 2 years. The other companies in the group were not directly related to the O&GI and they were not having the growing pains that we had. We wanted to have more focused attention to our needs. So we meet with our business Coach every other Friday afternoon.

We laid out a strategic plan with the Coach and the kids. Lisa coming from an investment background (7 years with a Series 7 & 66 licenses working at an investment firm) wanted to know what the business numbers were. So we all agreed we needed to invest in a new ERP computer system. \$100K! It took us a year to plan, buy and implement. We have been live with it for 3 months and it is saving us time and we get a better dashboard report on our business financials. I share this with you because this is an example of the “trickle down effect” of the O&GI. Our business grows and a local computer company who does not deal with the O&GI gets an order for a new system.

We have more employees now and we can now pay a higher family sustaining wage! We have people working for us that are the primary bread winner in their house hold. These employees get good benefits and a great work environment. However, because of the O&GI it is more competitive to find good quality skilled workers. Think about how many people the industry has hired here locally. And they do hire local workers!

Are there other local companies that have seen growth due to the Marcellus Shale development?

I can share a few companies with you.

1. **Killion & Sons Well Service (KWS)**. Three brothers came to Washington PA from Texas to work for Range Resources in the field. They learned a skill & trade doing completion work. They left Range and started their own company working for Range and others. They now have 50+ employees and I would say 90 percent are either from PA or have moved here and are PA residents.
2. **Washington Rotating Head** A family business that has been making mud diverters for the drilling industry for years. It was the Marcellus exploration that really gave this local company a boost to have the revenue and future to invest in their company.
<http://www.post-gazette.com/stories/business/news/washington-rotating-control-heads-inc-taps-into-the-marcellus-shale-market-678225/>
3. **ULC Ultimate Landscaping**. Gary Andreas had a small business cutting grass and plowing snow in the winter. He met someone from Range Resources 5 years ago who asked him if he could do a few jobs like cleaning the mud off the roads when the trucks left the site. Flagging and truck escort work. Then he got into doing the temporary road repairing for Range until the road had the final asphalt on it. Gary now has 40- 50 employees that are all SW PA residents. He has a fleet of trucks and equipment and he has opened a light truck repair and tire center in the community. He has so many vehicles and was using allot of tires. The repair shop is open to the public.
4. **Deeter Farms**. They are from North West PA and had a family dairy farm near Cooperstown PA. They leased the farm to Range for the gas rights. Got to know the Range people up north and started doing work for them. The family sold their dairy cows and purchased more earth moving equipment. A few years ago the Deeter family move to South West PA and started prepping well pads for Range and then started hauling production water. Last year the Deeter family purchased local land, built a large building and now employee say, 25-30 people.
5. **RC Sanitation** Rich Kreps had a successful small redi-mix concrete facility. He was too small to supply the amount of concrete that the plant construction was requiring. So Rich started a Port-A-John service for O&GI . He probably has 3-5 people working.

This is just a few of the many examples I can give. But let me make one point here about business. There are people who are against the industry because they say this is just a Boom & Bust cycle. This may be true when you look at the Upstream side of the O&GI. When the drilling starts there is a lot of activity and lots of business opportunities. We all must be smart business people and take the risk that we can afford to take. Have a business plan that takes into consideration a down turn in the drilling. It's the people who run out and borrow millions of dollars to buy equipment and then cry foul when the price of gas drops and the rigs move. That scenario should have been considered in the business plan. We, SunnySide, have decided to focus on the Midstream Processing part of the business. It will be here for 50-60 years to come. It does not have a high bata business cycle as Upstream business does.

How does the Oil & Gas Industry help other businesses in our Community?

You have 5 ways the O&GI will financially benefit local businesses and communities.

1. **Direct Relationship #1:** Have a direct business relationship with the O&GI, by providing some type of service or product that they purchase and use to develop the gas. Hard Good, Professional Services, Equipment, Pipe.
2. **Direct Relationship #2:** Provide a product or service that the O&GI & its workers use. Restaurants, Hotel, Motel, Copy Services, Gas Stations, Laundries, Camp Grounds,
3. **Landowner:** The industry will make payment to landowners for Resource Drilling Rights, Pipeline ROW, Royalty Payments
4. **Trickle Down:** This would include the purchase of goods & services by people & companies that have that Direct Relationship and the Landowners. Home Builders & Remodelers, Car & Truck Dealers, Barn Builders, Tractor Sales, Restaurants, Medical & Pharmacy, Entertainment, Asphalt Driveways. These are all businesses that I have talked to who have seen an upswing in their business due to the Marcellus development.
5. **Community Growth:** As I have stated earlier, the O&GI can be a strain on the community at first, but if you can talk and work things out there are benefits to the community.
 - a. **Charitable Donations:** Talk with the people who work with charity fund raising and they will tell you the Pittsburgh area is one of the most giving. I would bet if you looked close in the last five years you would see another upswing in donations. I can tell you from our own experiences, we as a company are more involved in the community with charities and our donation level has risen. Just this past December we Donated \$5,050 to the American Red Cross to help the victims of Hurricane Sandy, it would have been hard to do before O&GI.
 - b. **Road Improvement:** I mentioned the huge heavy trucks that come in to do the drilling and how they damaged the roads. Well in Mt. Pleasant Twp. Range Resources rebuilds those roads once the heavy trucks are done. While they are drilling the roads are drivable and safe. They are pretty much gravel roads. However, when Range Resources is done with the heavy trucks, they come in and rebuild the base of the roads and put 8-10" of asphalt on them. The roads are smooth and beautiful. Range will be running a heavy service truck in from time to time to haul out production water and condensate. It only makes sense to make the final improvements after the heavy trucks are done. What does this do for our community? The road crew says the new roads are easier to plow snow off of in the winter. We also don't have to spend our Twp. money to improve those roads. All we have to do now is maintain them. We can use the improvement saving on another road in the Twp. that the rigs will not be on.

- c. **Fire & Rescue:** The O&GI has supported our Volunteer Fire Department with donations and training.
- d. **Community Festivals:** O&GI is the main sponsor for all of these community events.
- e. **Impact Fees:** In Pennsylvania we have an Impact Fee that has been levied by the Commonwealth. The fee is per well head. In short, the fees are split like this; (I believe I have this right??)
 - 1. The State
 - 2. The Host County
 - 3. Each County in the Commonwealth
 - 4. The Host Twp.
 - 5. Each Twp. in the Host County

Our Township's Impact Fee for 2012 was around \$511,000. What do we do with these funds?

Guidelines are stated in the Act 13 Impact Fee legislation. However, we should use them to build our Communities Infrastructure like water, sewage, roads, bridges, police, fire, schools & medical. If you build a solid community infrastructure (foundation) people and citizens will build a community on that foundation.

What has the Marcellus development meant for families?

When the steel industry was being dismantled in the late 70's & 80's the jobs in the industry and all the support business jobs dried up. There was no future here for young people. We have great schools here in Pittsburgh to educate our children, but no industry or jobs to keep them here. It's not called the "Rust Belt" for nothing, our steel mills just rusted away.

Now with the O&GI in our area we have a bright future to keep our children here where they were raised. South Western PA is a great place to raise a family. When we talk with people from TX, LA, AK, KY, NM and others that have come here to work. Most of them buy houses and make this home. They all talk about the changing seasons and the colors and the stream and rivers. This industry is giving people a place to call home by providing great job opportunities at all skill levels and professions.

The Boomerang Effect! Have you heard of it? It's what we call it when someone who has moved away from PA to get a job in another state and then return back to PA because there is a job opportunity in the O&GI or one of those support companies. I see it happening all the time. One young fellow that graduated high school with my kids, he went to school to be a Petroleum Engineer! This is back in 2000. They were all in FFA together and agriculture minded. I thought what is this kid going to do with that degree and he had to move away from home? He spent time working in Texas and Alaska and I think Canada on the oil rigs. Last year, he boomeranged back to Pittsburgh and landed a job with Chevron! It is assumed to see this!

My wife and I are blessed to have both of our children working in the business. Lisa is 32 and has been back with us for 2 years. John is 30 and has been working in the business since he finished college. If you ask John, he'll say he has been working here "Since he was 3 and could operate a tape gun safely!"

What effect will the Marcellus Development have on Manufacturing?

From what I read and hear the Marcellus and other tight shale plays will provide the catalyst to be a game changer for American Manufacturing. Here's why:

1. An Abundant supply of Natural Gas.
2. The amount of Ethane that is being produced will lead to the Cracker Plants. The Cracker Plants will crack or break the Ethane molecule to produce feedstock for manufacturing.
3. Abundance of Feedstock for the Petrochemical and Ethylene industries
4. An experienced manufacturing work force.
5. Transportation cost will be reduced due to the abundant energy supply.
6. We have a consumer market that is ready to buy "Made in American" again.

To make this all work, we need the Federal Government to wean people off of entitlements and get them back to work. There is Pride in "Earning a Living", let's Make Americans Proud to go to work again!

Here is another aspect of how the O&GI will help American Manufacturing. When we sell products & materials to the O&GI, they request American made! They realize they have to start the wheels turning to create a need for Made in American products. Talk with US Steel Tubular Pipe & Wright Tools from Ohio, Ridgid Tool & Anvil Pipe fittings and see if there has been an increase in sales and demand for American Made!

What about the environment and Marcellus?

I'll go back to when I was looking at the Marcellus in its early days. I went to a lot of local meetings that people were having on the concerns about the environment and fracking. In my opinion, most of the incidents that were talked about were due to human error. Is that right? Does that make it better? Is that good? Those questions are for each of us to answer according to our beliefs and conscience. I will say this; the industry is made of professional engineers, geologist, scientist, safety and production people that want to get it right. They are continually making changes to their process to improve safety and efficiencies. By efficiencies I mean ways to reduce the amount of chemicals used, or the amount of noise a rig may generate. I believe they do strive for perfection and to make it safe.

The Marcellus Shale Coalition is an organization of Producers, Midstream & Service companies that have worked to develop "Best Practices" in all aspects of the industry to protect the workers and the environment. They have a set of Guiding Principles that each member embraces and lives by each & everyday. They also are committed to educating the public about the O&G and provide a Jobs Portal on their website www.marcelluscoalition.com

What does Marcellus mean to me from a world prospective?

I support exploration of tight shale oil & gas if for no other reason than to be able to get the USA off of foreign oil. Why do we keep buying oil & gasoline from countries that want to kill us and our children? We need leaders who want to make Americans proud again. Our natural gas resource will give us a product that we can trade with other friendly nations who believe in Democracy.

As you can tell, I could talk about this industry all day long and how it has helped people. It has been good to my immediate family, our brothers & sisters that own farm land, our business & our community. The Oil & Gas Industry is an exciting!

Respectfully submitted,

Paul Battista