



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE GOVERNOR
HARRISBURG

THE GOVERNOR

January 14, 2010

To Members of the Pennsylvania General Assembly:

On Tuesday we received proof positive that we made a wise move in prudently limiting the number of acres bid for Marcellus gas leasing. Bids were opened earlier this week for six tracts in state forests. The successful bids, which were offered by five companies and made official yesterday by the Department of Conservation and Natural Resources, will generate approximately \$128.4 million for the Commonwealth. This exceeds our expectations and means we can walk into next year with \$68 million in unanticipated oil and gas revenues, with fewer acres exploited than planned. This revenue will certainly make a difference in another very tough year with respect to our budget.

Because I share some of the serious concerns about the potential impact of natural gas drilling on our public lands, I have directed DCNR Secretary Quigley to form a partnership with the largest drillers to document best practices that limit the footprint of the drilling and moderate the need for new roads or trails through the forest. This work will kick off this spring. DCNR is recognized nationally for their commitment, skill and effectiveness and will continue to be the steward of our lands. I have also directed DEP to beef up our permitting oversight and pace of inspections. We are aggressive in our environmental oversight of drilling – and we should be.

As you know, last year I proposed that we impose a tax on the Marcellus natural gas extraction. Based on information from the industry, I pulled back from that proposal with the intent of giving the industry a year to get its sea legs and embed itself in Pennsylvania. We have seen tremendous activity in the past year, with DEP issuing 1,984 Marcellus Shale drilling permits, and in the same period operators reporting 763 Marcellus wells drilled (compared to just 195 Marcellus wells drilled in 2008). The industry has informed DEP that it expects it will seek to permit 5200 Marcellus wells just in 2010: a huge jump or a tripling of the number of Marcellus wells now permitted. This week's auction results of more than \$4,000 bid per acre – considerably higher than we anticipated – is further proof of how well the industry is doing and how much this commodity is valued.

Given that the industry is now firmly footed here and doing very well, I believe we should pursue the imposition of a tax on Marcellus natural gas extraction. I propose that this tax be effective this July and I hope the legislature will embrace this proposal.

Pennsylvania has an opportunity to hold onto the mantle of a leading state in alternative energy development as well as in natural gas extraction. Between the passage of the Alternative Energy Portfolio Standards (AEPS) in 2004, and nearly one billion dollars in state investments, we have made some remarkable progress. By the end of 2009, Pennsylvania will have 17 operating wind

farms providing 800 megawatts of electricity – enough power for 270,000 homes. We ranked second nationally in wind power growth in the second and third quarters of 2009 and doubled the amount of wind power operating in Pennsylvania in a single year.

We are also making tremendous strides in bringing more solar capacity on line. By December 2010, Pennsylvania will rank in the top five states for solar in terms of megawatts operating. With the programs that we have in place today and the funds made available to us through the federal stimulus, this will bring our total solar capacity to nearly 60 megawatts, or enough to power 7,200 homes.

In 2004, when we passed our standards, they were considered among the most ambitious standards in the nation. The law required that by 2021, eighteen (18) percent of all retail electricity sold in Pennsylvania had to be from clean and renewable resources.

But as you know, the alternative energy field is changing very rapidly and there are new developments being announced almost every day. Other states have raised the bar since 2004 by enacting more aggressive requirements for renewable energy:

- Maryland now has a renewable requirement of 20 percent by 2022;
- New Jersey has a renewable requirement of 22.5 percent by 2021; and
- Illinois – the seventh largest coal producing state in the nation – has a renewable requirement of 25 percent by 2025.

We also have to take another look at solar energy. Pennsylvania's solar requirement is currently 0.5 percent by 2021, which is below other states.

- New Jersey's solar requirement is 2.12 percent by 2020.
- Maryland's is 2 percent by 2015.
- Illinois' requirement is 6 percent by 2015.

Recently The Pew Charitable Trusts reported that Pennsylvania has the third highest number of clean energy jobs among the fifty states. That is good news, but we cannot hold onto that ranking if we don't keep pace with other states with respect to our portfolio standards. When other states enact higher requirements for renewable energy, they make their own states more attractive for future investments and put our competitiveness at risk. We need to preserve the Commonwealth's position as a leader in alternative energy and protect our investments and the thousands of associated jobs by raising our requirements for renewable energy.

I appreciate your attention to this request and I look forward to working closely with you to get both of these important energy bills done.

Sincerely,



Edward G. Rendell
Governor