MEMORANDUM February 14, 2023

TO: Members of the Subcommittee on Energy, Climate, and Grid Security

FROM: Committee Majority Staff

RE: Field Hearing entitled: "American Energy Expansion: Improving Local Economies and Communities' Way of Life"

I. INTRODUCTION

On Thursday, February 16, 2023, at 10:30 a.m. (CT), the Subcommittee on Energy, Climate, and Grid Security will hold a hearing at the Bush Convention Center, 105 N. Main Street, Midland, Texas, entitled "American Energy Expansion: Improving Local Economies and Communities' Way of Life." The field hearing will examine the benefits, opportunities, and challenges to expanding American energy from the local energy community perspective.

II. WITNESSES

- **The Honorable Lori Blong,** Mayor of Midland, Texas, and President of Octane Energy
- **Mr. Adrian Carrasco,** Chairman Midland Hispanic Chamber of Commerce, and President of Premier Energy Services
- **Mr. Steven Pruett,** President and CEO, Elevation Resources, in Midland, and Chairman of the Board for Independent Petroleum Association of America
- **Dr. Maria A. Reyes**, Deputy Director, Commission Shift

III. BACKGROUND

Energy is essential to the nation's economy, its productive capacity, its national security, and the health and welfare of the public. The production and distribution of energy provides immense economic opportunity for communities around the nation, especially for communities located in energy producing regions.

A case in point concerns communities in the Permian Basin— a 250-mile-wide and 300-mile-long area covering 55 counties in West Texas and the adjoining southeastern New Mexico.

The Permian Basin is one of the nation's oldest oil and gas producing regions, dating to the early 1920s.[1] At its pre-shale-revolution peak in the mid-1970s, it produced almost two million barrels per day of oil and almost 10 billion cubic feet per day (Bcf/D) of natural gas – accounting for over 20 percent of U.S. oil supply and 15 percent of its gas supply. Production in the basin dropped by more than half over the next 30 years, until the advent of hydraulic fracturing, horizontal drilling, and related innovations for production from shale and other "tight" formations.

These new innovations, which drove substantial new natural gas production in the Appalachian Basin (Pennsylvania, West Virginia, Ohio) and both oil and gas production in the Permian Basin and other regions, transformed America's energy landscape.[2] From 2007 to 2019, the President's Council of Economic Advisors (CEA) reported the innovations brought an eight-fold increase in extraction productivity for natural gas and a nineteen-fold increase for oil. This reduced costs and spurred production to record-breaking levels, resulting in the United States becoming the world's largest oil and gas producer—a net exporter of oil and the largest exporter of gas. CEA estimated this greater productivity reduced the domestic price of natural gas by 63 percent and led to a 45 percent decrease in the wholesale price of electricity; a 10 percent drop in the global price of oil.[3] This in turn, saved U.S. consumers an estimated $203 billion annually, or $2,500 for a family of four.[4]

The increased energy productivity benefited the nation. It also benefited states and local communities, in terms of employment, economic development, tax and royalty revenues, which have increased with productivity.

In the Permian Basin, advances in technology have steadily increased to record levels of productivity.[5] By April 2022, the Basin accounted for over 43 percent of U.S. oil production and 17 percent of U.S. gas production. A 2020 analysis found that the Texas oil and gas producers directly paid a record $13.4 billion to state and local coffers, almost two-thirds of which came from the Permian Basin.[6] By 2022, oil and gas contributions to the state and localities increased substantially. For example:

- In FY 2022, the Texas oil and natural gas industry paid $24.7 billion (~$67 million every day) in state and local taxes and state royalties, funds that directly support Texas schools, teachers, roads, infrastructure, and essential services.
- In 2022, 99 percent of the state's oil and natural gas royalties were deposited into the Permanent School Fund (PSF) and the Permanent University Fund (PUF), which support

[1] See Federal Reserve Bank of Dallas, linked here.
[2] For example, see U.S. Energy Information Administration (EIA) linked here and here.
[3] See "The Value of U.S. Energy Innovation and Policies Supporting the Shale Revolution," The Council of Economic Advisors, October 2019.
[4] The increase of more affordable gas to produce electricity especially helped the United States achieve the largest absolute reduction in carbon dioxide emissions in the world. See Global Energy & CO2 Status Report, International Energy Agency, March 2019.
[5] See "Advances in technology led to record new well productivity in the Permian Basin," EIA, September 30, 2022 linked here.
[6] See "The Permian Basin: Enriching Texas," prepared by the Texas Taxpayers and Research Association (TTARA) Research Foundation, September 2020, linked here.

Texas public education. Each fund received $2.1 billion—more than double the amounts from last year.

- In FY 2022, Texas school districts received $1.65 billion in property taxes from mineral properties producing oil and natural gas, pipelines, and gas utilities. Counties received $608.6 million in these property taxes. (Midland ISD received $113 million.)
- Texas oil and natural gas industry employment stands around 443,000. Workers earned an average $115,300 each—roughly 40 percent higher than the average in other private sectors. And for every direct job in the industry, conservative estimates indicate that an additional 2.2 indirect jobs are created. [7]

An expansive pipeline network connects the Permian Basin to processing and refining facilities along the Texas Gulf Coast. Five recently announced natural gas pipeline projects, if completed as planned, are expected to increase the Permian Basin's takeaway capacity by a combined 4.18 Bcf/D over the next 2 years.[8]

Various factors will affect current and future growth in the Permian Basin and the related economic development for communities in the region. These include oil market prices,[9] pipeline capacity to provide access to markets, supply chain and workforce issues, access to capital, and regulatory issues. This hearing should provide perspective for policymaker consideration about how these factors affect the interests of local communities.

IV. ISSUES

The following may be examined at the hearing:

- What are benefits of the oil and gas industry for Midland and surrounding communities?
- How to expand opportunities for employment?
- What impedes continued economic and community development?
- How has advancing technology and innovation addressed regulatory challenges?

V. STAFF CONTACTS

If you have any questions regarding this hearing, please contact Mary Martin or Peter Spencer of the Majority Committee staff.

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[7] See Texas Oil and Gas Association 2022 Annual Energy & Economic Impact Report, linked here.

[8] Exports from West Texas to Mexico have also grown in recent years, from 0.6 Bcf/D in 2019 to 1.2 Bcf/D in 2021, and to 1.4 Bcf/D on average from January through May 2022. The Energy Information Administration attributed the growth in natural gas demand, particularly in Mexico's power and industrial sectors, as contributing to the growth in pipeline exports from the United States.

[9] For example, most of the natural gas production in the Permian Basin is associated gas produced from oil wells. As a result, producers in the Permian Basin respond to fluctuations in the crude oil price in planning their exploration and production activities, including whether to deploy drilling rigs or take rigs out of operation.