

Chairman Christi Craddick, Railroad Commission of Texas
April 23, 2015

Oral Testimony of Christi Craddick

Chairman, Railroad Commission of Texas

Before The Committee on Science, Space, and Technology

United States House of Representatives

Hearing: Hydraulic Fracturing: Banning Proven Technologies on Possibilities Instead of Probabilities

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Chairman Smith, Ranking Member Johnson, and Members of the Committee:

My name is Christi Craddick, and as Chairman of the Railroad Commission of Texas (the Commission), I appreciate the opportunity to provide testimony and information to the United States (U.S.) House Committee on Science, Space, and Technology at today's hearing entitled, *Hydraulic Fracturing: Banning Proven Technologies on Possibilities Instead of Probabilities*. This is an important issue with a direct impact on Texas today, as well as in other states throughout the U.S., affecting thousands of jobs across the country and our nation's economy.

Since hydraulic fracturing has become a widely used practice, it has been surrounded by misinformation, propagated by groups more interested in prohibiting the technique than understanding the complex science of safe and responsible minerals extraction. Setting the hyperbole aside reveals a simple truth: There are no confirmed instances of groundwater contamination caused by hydraulic fracturing in Texas. With proper oversight, hydraulic fracturing is safe.

Railroad Commission Regulatory Structure:

The thriving energy sector in Texas is due in large part to the diligence of the Railroad Commission, which is responsible for ensuring the safety of oil and gas production statewide through a rigorous process of permitting, monitoring and inspecting operations. For ninety years, the Commission has served as the state's primary regulator of the oil and gas industry and is recognized as a regulatory leader. Commission rules and actions, grounded in science and fact and combined with almost a century

of oil and gas regulatory experience, allow us to achieve environmentally responsible protection for the public and our natural resources.

The difference in Texas is found in the Commission's mission statement: To serve Texas by our stewardship of natural resources and the environment, our concern for personal and community safety, and support of enhanced development and economic vitality for the benefit of all Texans. Everything we do reflects this philosophy. Sensible, business-minded regulation with a high standard for environmental safety allows the oil and gas industry to flourish.

In Texas, we know that free markets, economic growth and environmental protection are not mutually exclusive. A free energy market drives innovation and provides the affordable, reliable energy that American families and businesses need. When common sense policies are in place and the rules are sensibly applied, regulation should allow free markets to supply an abundance of affordable, reliable energy and a clean, healthy environment.

At the Commission, regulators, the public and industry have worked together to ensure sensible policies that support the state's big contribution to U.S. energy security. Without exception, the Commission holds industry operators accountable. Every aspect of oil and gas development is highly-regulated, as industry adheres to regulation at the local, state and federal levels. While it is in everyone's best interest the energy industry is successful, that is only the case if it does so responsibly and in full compliance with our laws, or the Commission will not hesitate to revoke their ability to do business in Texas.

Hydraulic Fracturing Technology:

Included in the Railroad Commission's regulatory responsibility is the well completion technique known as hydraulic fracturing. For more than 60 years, hydraulic fracturing has been used safely and successfully in over one million wells around the world, retrieving more than seven billion barrels of oil and 600 trillion cubic feet of natural gas.

The technique involves the process of extracting oil and gas reserves from shale rock layers deep within the Earth's crust that were once unreachable through the use of conventional drilling. This precise scientific process combined with horizontal drilling, allows for the injection of highly pressurized hydraulic fracturing fluids into shale areas. This creates new channels within the rock from which oil and gas are extracted at higher rates.

Railroad Commission Rules:

With ever-evolving industry technology and increased production comes a large regulatory workload. Although Texas regulatory standards have been in place for almost 100 years, the current energy growth has presented a real opportunity for states to benefit from the economic value of the responsible regulation of energy development. Recognizing that Texas has an abundance of natural resources, the Railroad Commission knows the importance of amending rules to further ensure environmental protection and public safety.

In an effort to bolster our regulations during this time of considerable growth, the Commission has worked with stakeholders including industry representatives, environmental groups and the public to ensure that rules reflect industry best practices. As groundwater protection remains a key objective to the Commission, major rule amendments have focused on this principal charge.

A keystone to the Commission's regulatory success, 16 Texas Administrative Code §3.13 (Statewide Rule 13), lays the groundwork for the safety of Texas water. Statewide Rule 13 evaluates well integrity, assessing casing, cementing, drilling, well control and completion requirements, codifying best industry practices. On Jan 1, 2014, the most stringent casing rule in the country went into effect in Texas.

In addition to Statewide Rule 13, before the Commission issues a drilling permit, the agency's Groundwater Advisory Unit will send an applicant a letter indicating the base of usable-quality groundwater, indicating the level at which an operator must place a cement casing to protect water sources. Wellbore construction and design is highly-regulated and technically robust. Ground water is

permanently protected by several layers of steel casing and cement, as well as thousands of feet of rock. As a result, well failure is extremely rare in Texas (less than 0.01 percent).

Hydraulic Fracturing's Economic Contribution:

Hydraulic fracturing, and the Railroad Commission's successful regulation of this technique, has reinvigorated the Texas energy industry. In 2014, oil and gas sectors directly employed 418,000 Texans, generated 1.8 million indirect jobs in supporting industries, and paid an average salary of \$120,000 / year.

In addition to thousands of jobs, an active energy industry in Texas has generated substantial revenue for state coffers. The oil and gas industry paid a record \$15.7 billion in state and local taxes and royalties in 2014, the highest such collection from the oil and gas industry in Texas history. The oil and gas industry supports 41% of the Texas economy as measured by Gross State Product, up from 33% in 2013.

The positive impact of oil and gas tax revenue takes many forms. Taxes and royalties paid by the oil and gas industry directly fund roads, schools, first responders, essential public services, and more. Government revenue from oil and gas development provides funding for public education, including public universities. The state's Rainy Day Fund, funded almost entirely by oil and gas severance taxes, has been used to support public schools, children's health insurance, economic development initiatives, and more. Last year, voters approved a constitutional amendment to direct billions of dollars in oil and gas tax revenue toward Texas highways. In 2013, Texas approved using \$2 billion from the Rainy Day Fund to fund the state's water plan.

Hydraulic Fracturing Bans Hurt Texas:

While economic gains are meaningless without the safety of our communities and resources, hydraulic fracturing bans hurt Texas and the U.S. energy sector as a whole. Hydraulic fracturing is a technique that is commonly used to produce virtually all oil and gas in Texas today. Bans and other unreasonable oil and gas regulation at the municipal level effectively ban all drilling within a community.

Outside interests are taking the legitimate concerns of citizens and influencing them in an attempt to end fossil fuel production. Many of the concerns environmental groups raise are factually inaccurate or unsubstantiated. Without clearly defined regulatory roles for cities, oil and gas development – and its ability to anchor the Texas economy – is in jeopardy.

As a policy measure, when we talk about banning hydraulic fracturing, what we are really talking about is the restriction of private property rights, in this case, mineral property. I support local control, but a person's property is the ultimate issue of local control. While a city can regulate what occurs on private property, a city cannot ban someone from access to it.

Furthermore, hydraulic fracturing has been vital to increasing our nation's energy independence by making the U.S. the world's leading producer of oil and gas, and strengthening our economic and geopolitical influence. Efforts to ban hydraulic fracturing, even at the local level, threaten to weaken that influence by reducing production levels and making our nation less competitive in the energy sector.

States Must Address the Issue of City Bans:

In Texas, bans aimed at industry are a present-day concern. In November 2014, the City of Denton enacted a ban on hydraulic fracturing. Multiple lawsuits were immediately filed to stop the measure, and the Texas Legislature is currently debating methods to pre-empt local bans on oil and gas development and industry drilling techniques.

Still, the Railroad Commission is required by delegated authority in state law to issue oil and gas permits in accordance with its rules. Once the Commission issues a permit to drill a well in Texas, operators face a variety of local ordinances they must comply with in communities in which they operate. Cities, therefore, are responsible for policing issues such as noise, traffic and safety setbacks.

Over the years, as energy companies have extracted oil and gas deposits from deep underground, their operations have often approached city boundaries. In those instances, success is found when the Commission and local authorities work together to implement sensible guidelines. One of local government's most useful tools in such situations is the setback requirement, which establishes minimum

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distances between drilling operations and buildings like schools, homes and churches. In my own hometown of Midland, energy companies have long worked safely within the constraints of a standard 500-foot setback.

Ensuring the continued success of the oil and gas industry in Texas involves shared responsibility and collaboration. The Commission's role centers on issuing drilling permits, overseeing them and regulating operators. Conversely, companies doing business here must comply with state law, Commission rules, and city ordinances, and must be good neighbors in the communities wherein they operate.

This reasonable model of collaboration will disappear in communities where hydraulic fracturing is banned. Without the certainty of fair regulation businesses will be far less willing to risk their capital and as a result, those cities will lose jobs, tax revenues, business development. The industry is the greatest economic contributor in Texas, and a prime driver in the vitality of the U.S. economy. Local and state economies rely on oil and gas development, and, at the same time, community members must feel safe. Achieving commonality requires a commonsense collaboration. In a world where misinformation and sensationalism too often drive the public discourse, let's embrace the truth, adopt reasonable approaches to the challenges we face, and share the prosperity that follows.

Thank you, Chairman Smith and Ranking Member Johnson, for the opportunity to testify before your Committee and for your attention to the importance of hydraulic fracturing and oil and gas industry technologies. The Railroad Commission of Texas applauds the Committee for introducing discussion on this important topic. I would be happy to answer any questions you might have regarding my testimony today.