

Inside BUSINESS

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Fracture drilling can go far toward healing regional economy

By Rod Hirsch

Significant reserves of natural gas close to home and the potential for large quantities of supplies coming on line in 2012 bode well for the New Jersey economy, promising a low-cost, reliable and long-term source of energy for industrial, commercial and residential users.

The Marcellus Shale formation, which stretches across West Virginia, Pennsylvania and upstate New York, contains natural gas reserves expected to last several decades, according to energy experts. Much of that supply can be easily transported to New Jersey through an existing network of transmission lines.

Fracture drilling, or fracking, for natural gas trapped in the shale deposits is ongoing in Pennsylvania, with New York State expected to begin granting permits this year. Energy companies are also running fracking operations in West Virginia.



Source: Independent Oil and Gas Association of New York

“Fracking” is short for hydraulic fracturing, or hydrofracking. It is the process of injecting frack fluid – a mixture of water, sand and chemicals – into shale at high pressures to fracture the rock, thereby releasing trapped natural gas.

The Marcellus Shale formation rivals some of the richest producing shale gas formations in the nation and its vital importance to the energy needs of the northeast has been acknowledged from the White House to the Statehouse in Trenton. President Obama stressed the importance of natural gas in his State of the Union address last month while Gov. Chris Christie mentions the Marcellus Formation and the importance of natural gas in New Jersey’s Master Energy Plan.

An abnormally warm winter season has contributed to a surplus of natural gas supplies but the confirmed existence of this vast reservoir of clean-burning natural gas will continue to depress prices and present opportunities for significant energy savings for businesses in New Jersey, experts predict.

“New supplies opened by fracking will ensure prices stay low for many years to come,” said Jim Hughes, dean of the Bloustein School of Public Policy at Rutgers University, which helped to craft New Jersey’s Energy Master Plan.

Those abundant supplies, added to known reserves, could go a long way toward convincing American industry to find even more applications for natural gas in the workplace, according to Tim Sherwood, vice president of Gas Supply Operations for AGL Resources, parent company of Elizabethtown Gas.

“Given the nature of a long-term investment you want to make sure you have a long-term abundant, affordable and dependable supply to make that investment,” Sherwood

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Chemical industry bubbly over benefits of shale gas

By Rod Hirsch

New Jersey’s chemical industrial complex relies on natural gas as a raw material, or “feedstock,” to develop thousands of chemical products that impact American lives morning through night – from hand soap and shampoo to dinner plates and late-night television.

Natural gas from the Marcellus Shale formation in New York can lead to new investment, jobs, wages and tax revenue for New Jersey, according to a report by the American Chemistry Council (ACC), “Shale Gas and New Petrochemicals Investment: Benefits of the Economy, Jobs

and U.S. Manufacturing.”

The report summarizes the potential impact on New Jersey and the ancillary benefits from lower prices derived from the new source of natural gas that lies below the surface in an expansive shale formation stretching from West Virginia through Pennsylvania and into upstate New York.

“We’re getting some benefits from it now,” said Elvin Montero, director of communications/issues management for

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The Canterbury Sales®

Hiring and educating the right vice president of sales
Crisis for small and middle market firms

By Andy Gole

CEOs and business owners require a strong executive team. Since strong leadership is a limiting or catalyzing factor in business survival and growth, selection of executives is a critical top management function. Building a competent sales and sales management machine can boost your sales 10-20 percent.

It can take years to train a top executive. What about the vice president of sales, which is the lifeline of almost every business? Do you have an effective method for selecting and educating this key executive?



Conventional views on selecting the vice president of sales include:

- A. Promoting a strong salesperson
- B. Hiring a candidate from a competitor
- C. Hiring a candidate from another industry
- D. Moving an owner into the position

Choices A and D provide industry and organizational knowledge; the candidates are known quantities. Choice B offers industry knowledge but not the same level of loyalty. Choice C is expected to deliver professional sales management but loyalty is uncertain.

Are any other qualities needed in the vice president of sales, in addition to traditional management qualities?

Assume you are looking for true business development – opening new profitable accounts – and/or your key account management requires:

- Up-selling/cross-selling products/services
- Introductions to other departments/divisions
- Selling in a cutthroat commodity environment

In addition to traditional sales management skills, you need a sales department with strong entrepreneurial and business-development leadership skills. These consist of:

Entrepreneurial Skills – Managing uncertainty, acting on a “do-or-die” (vs. best efforts) basis. This includes forward-looking metrics to evaluate the sales pipeline and individual salesperson effectiveness. This is particularly important for evaluating new sales team members.

Teaching Skills – To impart the entrepreneurial skills to the team and bring new sales team members up to speed.

Transformational Skills – Typically needed for a cultural shift, to lead the team through value and behavioral changes – from social-selling to business-selling and from best efforts to “do or die.”

Paradigm Building Skills – To develop a standard sales call and a sales management system based on urgency.

To identify the best candidate for vice president of sales, it might be desirable to invite in special, short-term outside expertise.

A consultant can build the sales machine by:

- Designing the sales and sales management process
- Leading the sales team through a transformation

Once the machine is up and running, the vice president of sales can operate and tweak it. The consultant will mentor him or her through the change process.

An ideal change process has seminars in week one, one-to-one discussion with each sales team member in week two, seminars in week three, etc.

This still leaves open the question of recruiting the candidate. Involving the consultant early in the recruiting process will help you identify the candidate who not only meets your management criteria but also is a fit for an entrepreneurial/business-development machine.

The consultant also can help you identify performance criteria for the vice president of sales, to support your management of the sales executive and mentor him/her, providing a school for vice president of sales.

If you define the vice president of sales assignment as operating the sales machine, you will have a much richer candidate pool, including internal candidates.

If you have the right sales executive in place, someone you have trained and trust, the consultant can complete the education.

It will be more costly in the short term to bring in special expertise. But the economic justification becomes clear when you consider the opportunity cost of lost sales and sales department turnover.

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Andy Gole has taught selling skills for 17 years. He started three businesses and has made approximately 4,000 sales calls, selling both B2B and B2C. He invented a selling process, Urgency Based Selling®, with which he can typically help companies double their closing or conversion ratio. Learn more about Andy's method at www.bombadillc.com or by calling him at 201.415.3447.



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Chemical industry bubbly over benefits of shale gas *(Continued from page 1)*

the New Jersey Chemistry Council, referring to drilling operations that are producing large quantities of natural gas from the shale deposits in Pennsylvania. "Because we are so close to the source it does give economic advantages to companies in the manufacturing sector."

The White House notes the importance of the Marcellus Shale deposit in a report focused on companies that are bringing jobs and investment back to the United States.

"Since the mid-2000s, the discovery of new natural gas reserves, such as the Marcellus Shale, and the development of hydraulic fracturing techniques to extract natural gas from these reserves has led to rapidly growing domestic production and relatively low domestic prices for households and downstream industrial users," the report states.

"If harnessed in a safe and responsible manner, natural gas resources present an extraordinary opportunity to lower input costs for many manufacturers and to create, according to most analyses, several hundred thousand new manufacturing jobs in the coming years."

That is a formula the chemical industry embraces.

"America's chemistry industry is glad to see the White House connecting the dots, linking stable and plentiful natural gas supplies to U.S. economic prosperity and jobs," said Cal Dooley, president and CEO of the ACC. "We're now looking to the Obama administration, Congress and state officials to make sure policies and regulations allow us to capitalize on the significant domestic energy source while protecting our environment."

"Access to untapped supplies of natural gas is one of the most important domestic energy developments in 50 years," Dooley added. "This report is further evidence that natural gas is a game changer – for the chemistry industry, U.S. manufacturers and America."

Ethane, a derivative of natural gas, is a primary feedstock used to produce ethylene, a building block chemical used in thousands of products, including adhesives, tires,

plastics and more.

The ACC analyzed the impact of a hypothetical but realistic 25 percent increase in ethane supply on growth in the petrochemical sector. New Jersey is the seventh-largest chemical-producing state in the United States and would realize the following benefits under this scenario:

- \$3.5 billion investment in an ethylene production complex that could generate a total of \$4.8 billion in additional chemical industry output, bringing the state's industry revenues to more than \$30 billion
- More than 16,000 permanent jobs created in the chemical industry and through the supply chain, from trade and craft jobs to highly-skilled knowledge workers
- Nearly \$1.3 billion in wages for New Jersey workers, generating \$181 million in state tax revenue and \$281 million in federal revenue.

Nationally, the 25 percent hypothetical increase would generate:

- 17,000 new knowledge-intensive high-paying jobs in the U.S. chemical industry
- 395,000 additional jobs outside the chemical industry
- \$4.4 billion in incremental annual federal, state and local tax revenue
- \$32.8 billion increase in U.S. chemical production
- \$132.4 billion in U.S. economic output (\$83.4 billion related to increased chemical production and \$49 billion related to capital investment by the chemical industry)

Increased ethane production is already occurring as gas processors build the infrastructure to process and distribute supplies from shale gas formations, according to the ACC report.

Because the price of ethane is low relative to oil-based feedstock used in other parts of the world, U.S.-based chemical manufacturers are contributing to strong exports of petrochemical derivatives and plastics, according to the report. In 2010, exports in basic chemicals and plastics were up 28 percent from 2009, with the trade surplus in basic chemicals and plastic surging to a record \$16.4 million.



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Fracture drilling can go far toward healing regional economy

(Continued from page 1)

said.

“Shale gas from the Marcellus Formation creates that opportunity in the northeastern United States and has real benefits,” he added. “Even if only a portion of those reserves comes on line, we anticipate it will keep gas very economical for years to come.”

The United States is now estimated to possess 2,552 trillion cubic feet of natural gas reserves, 32 percent of which is shale gas which until a few years ago could not be extracted economically. This translates into an additional supply of 36 years at current rates of consumption, according to the American Chemistry Council. Total U.S. natural gas resources are estimated to be large enough to supply more than 100 years of demand. In the decades ahead, shale gas could provide 25 percent of the United States natural gas demand, compared to 8 percent in 2008.

This has enabled the United States to sharply curtail its imports of natural gas from Canada, according to energy industry experts.

“For many years New Jersey and the Northeastern United States (have) been a net importer of natural gas,” said Duane Brown, vice president of marketing for Sprague Energy, a third-party supplier of natural gas and electricity in New Jersey and the Northeastern United States. “If we include Marcellus we will potentially see an outflow of natural gas going to other regions.”

The increase in local supplies also should translate to an increase in local consumption, Brown added.

“We’ve seen much more commercial interest in natural gas in the marketplace,” he said. “We’ve seen quite a few apartment and office buildings expressing greater interest in natural gas to save on energy costs.

“Businesses, manufacturing facilities, commercial buildings, office buildings, shopping malls, there’s been quite a bit of conversion to natural gas already. The larger consumers

have very likely already converted. However, because sustained low prices have existed for a long time now, more and more smaller businesses are thinking of converting to natural gas.”

Michael Fallquist, president of Viridian, another third-party supplier serving New Jersey, agrees.

“Any time you bring more supply into an area, costs are likely to go down,” Fallquist said. “However, the real impact on pricing will also depend on the development of additional access of the fuel to specific areas.

“If natural gas in the area is subject to sustained lower prices, demand is likely to go up as customers convert. This will be particularly true as large commercial users consider converting to natural gas from traditional fossil fuels.

“For businesses already using natural gas, the abundance of supply should result in lower prices. This is a great time for business consumers to consider long-term gas supply contracts.”

Tapping the natural gas reserves in the Marcellus Shale formations is an integral part of the New Jersey Energy Master Plan released last year.

“The pipelines that serve New Jersey benefit from increased production by the Marcellus Shale region,” the plan states. “Existing pipeline connections allow for the transportation of shale gas from Marcellus in addition to conventional production from the Gulf Coast. Shale gas is expected to increase substantially in the decade ahead, and may continue to capture increased market share for decades.

“There are a number of competing new pipeline proposals that are expected to expand pipeline deliverability into New Jersey and the New York metropolitan area, which would provide Marcellus Shale gas producers with improved access to these

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markets," the plan continues. "New Jersey's pipeline and (local distribution company) infrastructure is likely to be strengthened by these new pipelines. The Christie Administration seeks to leverage New Jersey's natural gas infrastructure to foster the State's environmental and economic goals."

"Gas prices are extraordinarily low," Hughes said. "The gap between oil prices, propane prices and natural gas is as wide as it's ever been. That's a positive for the economy. Consumers in New Jersey (who) have natural gas as heating fuel have been getting reduced bills for a period of time because of the surpluses. Same thing for commercial customers, office buildings and manufacturing that use enormous amounts of

energy.

"It will help with electricity prices, too. If we use more natural gas for electrical generation, it will make the region more competitive and lower the cost of doing business."

End users already are seeing the benefits of the brightening natural gas outlook for the region. PSE&G residential customers will see an average \$30 reduction in their February bills because of lower prices paid by the utility for its gas supplies, according to Karen Johnson, a spokesperson for the utility.

Fracture drilling promises to bring more of the same.

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Inside Views

IRS Strikes out again

A couple weeks ago I received a Form 1099K in the mail from one of the companies that processes the chamber's credit cards. It looks pretty much like any other 1099. The form reports the charges that were processed by this company and, due to the Housing Assistance Act of 2008, all businesses that accept credit cards are supposed to receive it.

Upon reviewing the form a little more carefully, I was immediately disconcerted because not only did it contain the chamber's business information, it also had my personal name and tax ID. Most credit card processors require the tax information of the principals of a business just as a bank does when they open an account. The problem is that when I do my personal tax return, the IRS is going to have information indicating I had all this income from these credit card transactions.

I have a really good accountant and I am sure I can get all this worked out on the personal side. The business side is another story, however.

Because of this new law, all business tax returns are going to become much more complicated. In fact, I'm not sure a business will be able to balance their 1099K with their other income. With charge backs, cash refunds and credited accounts, this is going to be an accounting nightmare.

And this is really the story. The process of filing and paying taxes is becoming more and more complicated. I'm pretty astute but several years ago I threw in the towel and started having my taxes prepared professionally. It costs a good amount of money and I still have to spend time pulling everything together, but it is well worth it.

So why do we have the new 1099K and why are taxes getting more complicated? The answer is easy.

The government is broke and they need to squeeze as much blood out of the stone as they can. So Congress comes up with neat programs like the Housing Assistance Act or the Affordable Care Act that need to be paid for. They then start with the premise that everyone cheats on their taxes and they have the IRS design a new reporting program that prevents cheating, thereby raising the revenue needed to cover the program.

The key to this strategy is that the government does not pay the cost of compliance. So if they're maximizing their tax revenue, they will tax to the point that additional revenue equals additional cost. Since the government does not pay the expensive accounting bills to comply with these regulations, revenue is pretty much pure profit, at least until the additional deduction caused by increased accounting costs is taken into account.

So if a business pays an additional \$1,000 to comply and pays the government an additional \$1, the government comes out ahead.

This is the third time in the last year these kind of crazy rules have come out. The first was from the Affordable Care Act that was going to mandate 1099s be issued to anyone who received money from a business, including all vendors. The second was a mandate that federal, state and local governments would be required to withhold 3 percent of payments to any government vendors.

The uproar from the business community deep-sixed both of these. New legislation, the 1099K Overreach Protection Act, was just introduced to deal with the most recent. I have no doubt that Congress will come to its senses and pass this legislation, as well. However, I would recommend that you contact your congressman and senators to encourage them to do so.

I continue to be troubled by the premise of many in our government that people in general and business people in particular are dishonest and that there is a need for ever more onerous reporting requirements. With a fair and simple tax system, compliance would be much better.

However, a system where nearly half the population pays no federal income tax and 1 percent pays 40 percent is not sustainable, as we are rapidly finding.



Jim Coyle

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Where the Chamber Stands...

Finally someone is listening

When President Obama called for requiring students to remain in high school until graduation or they turn 18 in the State of the Union address, what sounded like a comment on education reform actually was a demand that the nation better prepare its future workers for the economic realities of both today and tomorrow.

This is something the Gateway Regional Chamber of Commerce has proposed for years.

The United States has failed in its primary obligation to its youth, to prepare them for success in adult life. In striving to enable every child to go to college and achieve the American Dream, we too often have denied them the basic requirement for reaching that goal – employability. For if a 25-year-old with a high school or college degree does not possess the skills needed to find a job, then the American Dream will remain just that – a dream. Dropouts, with no skills, stand an even lower chance.

Consider these statistics:

- 22 percent of U.S. businesses claim they cannot find qualified candidates, with 52 percent reporting difficulty filling critical positions.
- 40 percent of employers rate new hires as “deficient” for their entry-level position.
- Three out of four high school graduates entering college are not prepared and require at least one remedial class.

That's the bad news. The really bad news is that far too many U.S. students do not even attain a high school degree. Nearly 30 percent of high school students do not graduate high school on time and nearly 12 percent do not attain a degree by the time they are 35.

So mandating that young people stay in school longer is a good start but it is just a start. How and what we teach them is critically important, as well.

The *Huffington Post* recently reported that Siemens Corp. has more than 3,000 job openings throughout the nation and that more than half require science, technology, engineering and math-related skills. Yet fewer than 15 percent of current U.S. college undergraduates are pursuing degrees in science or engineering.

To ensure our students are employable upon leaving high school or college we must enable them to keep up with developing technology that drives today's businesses.

In a recent article in *The Atlantic*, Adam Davidson reported that “in the 10 years ending in 2009, (U.S.) factories shed workers so fast that they erased almost all the (employment) gains of the previous 70 years; roughly one out of every three manufacturing jobs – about 6 million in total – disappeared.”

At the same time the manufacturing output of the United States skyrocketed to all-time highs. Industry is replacing unskilled labor with machines that need very highly educated and trained workers to operate.

From the dawn of the Industrial Revolution, technological and business process advances have displaced one set of workers while simultaneously creating demand for new sets with different skills. And workers have acquired the training and/or education needed to fill those new spots.

Yet today changing technology and improving business processes are outpacing the ability of workers to keep up. How we educate our young people – our future workers – must change if we are to survive in a global economy where 60 percent of high school students in South Korea take extra tutoring in order to remain competitive in their pursuit of college and, later, good-paying jobs.

President Obama is correct. We must keep our students in school, if only for their own good – their future employability. Yet we must better educate them while in school for the realities of the job market they will face. The most popular college majors remain communications, criminal justice and marketing – not exactly what Siemens is looking for in its quest to fill those 3,000 job openings.

Equally important, we must introduce career and technical training as early as junior high school. And we must be willing to steer future workers away from higher education. Of the 25 fastest-growing occupations in the United States between 2008 and 2018, 13 require no more than an associate's degree while nine call for only on-the-job training. Those are jobs waiting to be filled.

The New Jersey Legislature appears to be listening, as well. The Senate and Assembly Education committees recently approved a bill to raise the dropout rate in New Jersey to 18. So President Obama is not alone.

Whether they realize it or not, they are finally hearing the plea of the nation's employers to send help – qualified help.

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Capital Page...

Assemblyman John S. Wisniewski (D-9), Deputy Speaker

The State of Our State



In this year's annual State of the State address, Gov. Christie offered a number of proposals for legislators to consider in the coming year. Some are likely to find bipartisan support such as his proposal to provide drug treatment instead of jail for non-violent drug offenders.

There are also areas such as education where Democrats and Republicans can agree on the problems but differ on the strategies to solve them. I was encouraged to hear the governor recognize in his remarks that the majority of New Jersey students perform well. In the heated debate over education reform, it seemed that he had lost sight of that fact.

His recent comments that the growth of charter schools should be focused in school districts where we are failing our children is also a relief to those of us who had a growing concern about the good schools that were losing education funding to local charters. If all parties involved are able to maintain a civil discussion, we may have an opportunity to make progress on tough issues such as teacher tenure reform.

Then there are areas where there are stark disagreements with the governor, both in his assessment of the current state of our state and his proposals moving forward. Nowhere is this contrast more evident than in his assessment of our current fiscal state and his tax proposals.

Before I discuss those disagreements, let me note one area of agreement on taxes. Restoring the earned income tax credit for New Jersey's working poor has the potential to garner wide support in the Legislature. For the governor to have cut this credit, which even Ronald Reagan supported, was a grave injustice to those who struggle to provide for a family despite their work. My only concern is that this proposal should not be held hostage to his more contentious proposal for an across-the-board income tax cut.

The governor's income tax cut proposal is both inequitable and does nothing to address New Jersey's true tax problem – property taxes. In fact, it stands a very good chance of making property

taxes an even greater problem.

While the governor is quick to claim that property taxes are under control, he turns a blind eye to the fact that his policies have significantly raised the average property tax burden in New Jersey. According to an analysis done by NJ Spotlight, an online news service, when property tax credits and rebates are included in the calculations, the average New Jersey homeowner saw a net increase of 20 percent in their property tax burden in the last two years – from \$6,244 in 2009 to \$7,519 in 2011. That \$1,275 increase is more than the entire income tax bill for a New Jersey family of four earning \$75,000.

The governor's income tax proposal would also, once again, disproportionately favor the wealthy. The same family of four who saw a property tax increase of \$1,275 would receive just \$112 from the income tax cut when fully phased-in. By contrast, someone earning \$1 million would reap \$7,266.

Most egregious, however, is the fact that the governor has ignored major fiscal problems on the near horizon.

While he may claim to have made some progress on New Jersey's pension liabilities, he also has planned for the state's contributions to the pension fund and to fund transportation infrastructure to grow by \$5 billion in the next few years. Despite his claim of having made tough decisions, he has resorted to the same borrow and "kick the can down the road" fiscal strategies for which he has criticized his predecessors.

The first step in solving any problem is recognizing it. With his State of the State address, Gov. Christie has failed to clear this first hurdle. Until he does, New Jersey can not truly begin to solve its problems.

Insight *The costs and benefits of natural gas fracking*

By Kurt Rotthoff

There has been a boom in natural gas and oil fracking across the United States. Fracking has received attention from the media and was even part of the State of the Union address.

However, most people still do not understand what it is. More importantly, is the fracking boom a good or bad thing for our country?

To assess an activity we must first know (a) what it is, (b) its benefits and (c) its costs. To fully appreciate if this process is good or bad, we need to analyze the net effects of both the costs and benefits on our economy.

What is fracking?

Hydraulic fracturing, i.e. fracking, is a technique to extract natural gas and oil from deep shale rock formations. Although the natural gas has always been there, only recently have technologies allowed for an efficient extraction process.

To make fractures in the rock, drilling equipment uses controlled explosions to fracture the shale. These openings are then pressurized and filled with a combination of water, sand and chemicals, forcing the natural gas out. The natural gas is contained and prepared for transportation – eventually to be used as an energy source.

When completed correctly, there are chemicals left in the shale, replacing the natural gas, keeping the structural integrity of the shale formation.

What are the benefits?

The biggest benefit of fracking has been the increased supply of available natural gas. As the supply has increased, the price of natural gas has decreased. For example, in 2008 natural gas sold for more than \$12 per thousand cubic feet and is currently selling for under \$2.50. This drastic decrease in price, especially during difficult economic times, has been a benefit to all consumers. It allows us to spend less on natural gas, freeing up more money for other goods.

This boom in natural gas extraction also has had an impact on employment. Unemployment numbers are lower in fracking regions; some of these areas have unemployment rates half the

national rate.

Finally, for those concerned with energy independence for America, fracking has helped. The use of natural gas and shale oil has displaced the consumption of foreign oil. According to the U.S. Energy Information Administration, American oil imports hit a high of 60.3 percent in 2005 and have fallen to 45.2 percent in 2011. This is the lowest level since 1995.

What are the costs?

Enjoying low-cost natural gas today could put the U.S. in danger in the future because it decreases the necessity for research and development of new energy alternatives. The incentives to research hydro, solar and wind power have decreased drastically. The push to develop these technologies came with the fight for energy independence and high gas prices.

The cost to the environment also is a big issue. In towns where fracking has occurred there are ground water health concerns as well as speculation of an increase in the number of earth quakes. These are both serious issues. However, with an increase in transparency in the process, i.e. the knowledge that the process is being done correctly, the overall worry of these events decreases.

Good or bad?

The use of natural gas is expected to continue to increase in the future. According to the "BP Energy Report 2030," the use of oil as an energy resource will decrease, coal will remain relatively flat and natural gas will increase. These three fossil fuels are expected to represent 26-27 percent of overall energy consumption each, with non-fossil fuels (hydro, nuclear and renewable) expected to make up about 7 percent each.

As populations around the world increase, as well as the world's demand for energy, assuming it is done in an appropriate and transparent manner, fracking allows for an energy source to meet these demands.

Kurt Rotthoff is an assistant professor of economics and finance in the Stillman School of Business at Seton Hall University.

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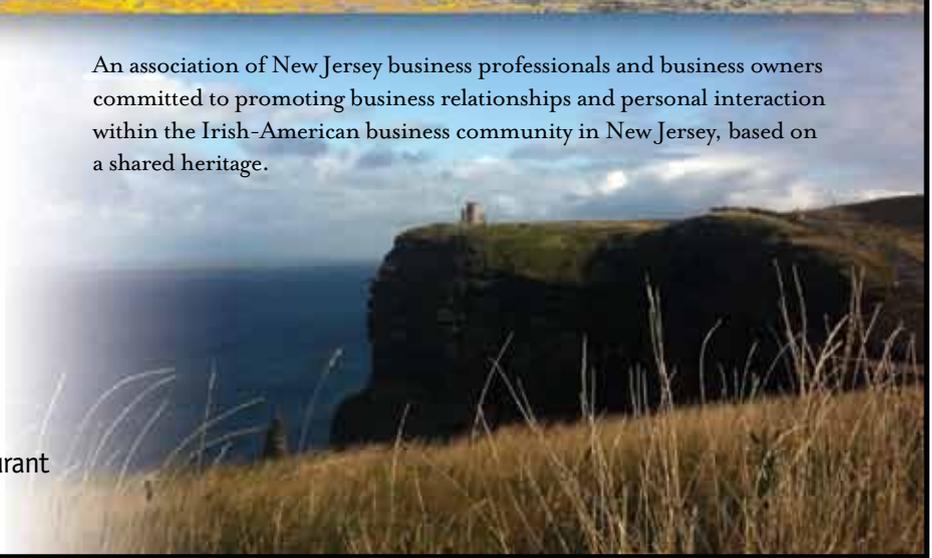
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