

## **Booming Natural Gas Industry Should Pay Its Fair Share**

Severance Tax Assessment, as Done in Other States, Will Help PA, Local Communities Meet Obligations

### **Pennsylvania: The Nation's Drilling Epicenter**

The already intense interest in Pennsylvania's natural gas reserves has only further intensified in the past year, making the Keystone State one of the nation's choice destinations for exploration and extraction.

Much of that interest has been driven by Pennsylvania's share of the vast Marcellus Shale formation. This formation, which stretches underneath Appalachia, is estimated to hold enough natural gas to meet America's total demand for the next 20 years.

Last year, Governor Rendell asked for a delay in implementing a severance tax because natural gas prices had plummeted. Those prices have now rebounded and recent large corporate purchases of Pennsylvania drilling rights and drilling companies operating in the state demonstrate that the industry is thriving here.

Pennsylvania's 1,000 Marcellus wells are even more lucrative now that natural gas prices have more than doubled since September.

### **Multi-Billion-Dollar Corporations Putting Up Big Bucks to be in PA**

Interest in the Marcellus Shale is so intense that one of the world's largest energy corporations, Exxon Mobil, which managed to make \$19.4 billion in 2009 despite the global recession, moved to purchase a major natural gas developer—XTO Energy—in a deal now valued at \$41 billion. According to media reports, XTO has 280,000 acres under lease in the Marcellus Shale region, including in Pennsylvania.

Natural gas drilling companies were also more than eager to pay top dollar for the rights to lease state forestland, offering \$128 million to the state, or more than twice the amount planned for this fiscal year.

The Department of Environmental Protection issued only 2,285 permits for natural gas wells in 2000. By 2008, it issued more than 7,900. That figure dropped slightly in 2009 when gas prices fell, but the drop didn't apply to the promising Marcellus Shale. Nearly 2,000 permits were issued for Marcellus wells in 2009, a more than 400 percent increase over 2008.

Gas exploration companies have informed state officials that they intend to apply for 5,200 permits for the Marcellus Shale alone in 2010—that's nearly triple the total number of Marcellus well permits issued in Pennsylvania over the past five years.

### **28 States Impose Severance Taxes on Natural Gas; PA's Proposal More Competitive than Many**

Under Governor Rendell's plan, companies would only be charged 5 percent of the value of the natural gas at the wellhead, plus 4.7 cents per 1,000 cubic feet of natural gas taken from the ground—making Pennsylvania's proposed tax less of a burden to drilling companies than many of the fees that are already on the books in 28 other states (see table on next page).

This approach is modeled after West Virginia's plan, which has not deterred the industry's growth there. In fact, West Virginia's natural gas production increased more than 20 percent from 2002-2007.

Natural gas drilling companies are accustomed to paying a severance fee. Since every other major gas producing state imposes one, drilling companies accept it as a cost of doing business.

Last year, Matthew Sheppard, a spokesperson for the largest holder of Marcellus Shale leases in Pennsylvania said, "We gladly pay a severance tax in every state where we're active, except New York and Pennsylvania."

Pennsylvania—which is the 15<sup>th</sup> largest natural gas production state—is the only major fossil fuel-producer that does not levy a severance tax.

The table (at right) highlights the other 28 states with a natural gas severance tax. Ten other states—Arizona, California, Georgia, Maine, Maryland, Minnesota, Missouri, New Hampshire, North Carolina and Washington—impose some sort of severance tax when natural resources are taken from the ground.

### Revenue to Meet Current and Future Needs

Governor Rendell's proposal would generate approximately \$1.8 billion over the next five years—funds the state and local communities need in order to meet the looming obligations that threaten Pennsylvania's long-term prosperity.

For the state, revenues from the severance tax would be deposited into the Stimulus Transition Reserve Fund, which cannot be legally tapped until July 2011 when it will be used to address the loss of \$2.3 billion in federal stimulus funds.

Under the Governor's proposed 2010-11 budget, local communities that are facing burdens created by drilling companies would also receive \$180 million over the next five years.

Projected New Severance Tax Revenue			
Tax Year	State Revenue in Millions of Dollars	Local Revenue Share in Millions of Dollars	Total State and Local Revenue
2010-11	\$160.7 <i>Held in Stimulus Transition Reserve Fund</i>	\$17.9	\$178.6
2011-12	\$260.0	\$28.9	\$288.9
2012-13	\$320.0	\$35.6	\$355.6
2013-14	\$396.2	\$44.0	\$440.2
2014-15	\$475.6	\$52.8	\$528.4
<b>TOTALS</b>	<b>\$1.6 billion</b>	<b>\$180 million</b>	<b>\$1.8 billion</b>

State	Highest Marginal Rate on Natural Gas
Alabama	4-8% of gross value
Alaska	22.5% plus 0.25% of net value
Arkansas	5%
Colorado	Up to \$10,750 and 5% of gross income above \$299,999
Florida	\$0.563 per thousand cubic feet (MCF)
Idaho	No more than \$0.005 per 50,000 cubic feet of gas
Illinois	0.10%
Indiana	The greater of 1% or \$0.03 per MCF
Kansas	8%
Kentucky	4.5% of gross value
Louisiana	\$0.03 - 0.13 per MCF
Michigan	5%
Mississippi	6%
Montana	0.76% - 15.06%
Nebraska	3%
Nevada	2-5%
New Mexico	3.75%
North Dakota	\$0.1476 per MCF as of June 30, 2009
Ohio	\$0.025 per MCF
Oklahoma	7%
Oregon	6%
South Dakota	4.5% of taxable value
Texas	7.5% of market value
Utah	3% - 5%
Tennessee	3%
Wisconsin	7%
West Virginia	5% plus \$0.047 per MCF
Wyoming	6%

### A Fair and Popular Approach at the Right Time

There is widespread support for a severance tax. A 2009 poll by Fairbank, Maslin, Maullin & Associates and Public Opinion Strategies showed that a majority of citizens support natural gas companies paying a fee in Pennsylvania just as they do in other states.

Because the state is in the heart of the nation's largest markets, which includes approximately 55 million people between Boston and Washington D.C., natural gas companies are eager to develop this commodity in Pennsylvania.