

Proposed
SEVERANCE TAX
in Pennsylvania



Governor Rendell's Proposal

- a 5% tax on the market value of natural gas
- a 4.7¢ tax per mcf on the volume of natural gas extracted

No other mineral is taxed

Pennsylvania's conventional shallow gas producers will be crippled by the severance tax

20-Year Conventional Natural Gas Well Production

Income & Expenses

| | |
|---|-----------------|
| Production (MCF) | 100,137 |
| Gross Income (12-year Average \$4.63-MCF) | \$463,634 |
| Royalty Payments @ 12.5% | <u>57,954</u> |
| Gross Income to Operator | \$405,680 |
| Well Drilling & Completion Cost | 225,000 |
| Operating Expenses | <u>108,000</u> |
| Net Income | \$72,680 |
| Severance Tax Rate (12-year Average) | 6.26% |
| Tax on Operator | \$25,403 |
| Effective Severance Tax Rate on Net Income | 34.95% |

Landowners' Effective Tax Rate on Royalty Income

| | |
|----------------------------|--------------|
| Personal Income Tax: | 3.07% |
| Severance Tax: | <u>6.26%</u> |
| Effective Tax Rate: | 9.33% |

Severance Tax Revenue Projections



The Governor's *Seven Year Summary of Revenues* projects the following Severance Tax revenues available for appropriation :

| Fiscal Year | Severance Tax Revenues |
|-----------------------|-------------------------|
| 2009-2010 Budget | \$ 107,200,000 |
| 2010-2011 Estimated | \$ 236,000,000 |
| 2011-2012 Estimated | \$ 353,500,000 |
| 2012-2013 Estimated | \$ 490,700,000 |
| 2013-2014 Estimated | \$ 631,900,000 |
| Total Revenues | \$ 1,819,300,000 |

Severance Tax Revenue Projections



| PA Annual Natural Gas Production | | | |
|----------------------------------|---------------|----------------------|-----------------|
| Year | MCF | \$/MCF | Value |
| 1997 | 80,000,000 | \$2.32 | \$185,600,000 |
| 1998 | 130,317,000 | \$1.96 | \$255,421,320 |
| 1999 | 174,701,000 | \$2.19 | \$382,595,190 |
| 2000 | 150,000,000 | \$3.68 | \$552,000,000 |
| 2001 | 130,853,000 | \$4.00 | \$523,412,000 |
| 2002 | 157,800,000 | \$2.95 | \$465,510,000 |
| 2003 | 159,827,000 | \$4.88 | \$779,955,760 |
| 2004 | 197,217,000 | \$5.46 | \$1,076,804,820 |
| 2005 | 168,501,000 | \$7.33 | \$1,235,112,330 |
| 2006 | 175,950,000 | \$6.39 | \$1,124,320,500 |
| 2007 | 182,277,000 | \$6.37 | \$1,161,104,490 |
| 2008* | 198,788,636 | \$8.00 | \$1,590,309,091 |
| Average Annual: | \$4.63 | \$777,678,792 | |

| Governor Rendell's Severance Tax Proposal | | | |
|---|------------------|-------------------|-----------------------|
| 5% Gross | 4.7¢-MCF | Total Revenues | Effective Tax Rate ** |
| \$9,280,000 | \$3,760,000 | \$13,040,000 | 7.03% |
| 12,771,066 | 6,124,899 | 18,895,965 | 7.40% |
| 19,129,760 | 8,210,947 | 27,340,707 | 7.15% |
| 27,600,000 | 7,050,000 | 34,650,000 | 6.28% |
| 26,170,600 | 6,150,091 | 32,320,691 | 6.18% |
| 23,275,500 | 7,416,600 | 30,692,100 | 6.59% |
| 38,997,788 | 7,511,869 | 46,509,657 | 5.96% |
| 53,840,241 | 9,269,199 | 63,109,440 | 5.86% |
| 61,755,617 | 7,919,547 | 69,675,164 | 5.64% |
| 56,216,025 | 8,269,650 | 64,485,675 | 5.74% |
| 58,055,225 | 8,567,019 | 66,622,244 | 5.74% |
| <u>79,515,455</u> | <u>9,343,066</u> | <u>88,858,520</u> | 5.59% |
| \$466,607,275 | \$89,592,887 | \$556,200,162 | 6.26% |

Average Annual Severance Tax Revenues: \$46,350,013

2009-2010 Budget Estimated Severance Tax Revenues: \$107,200,000

Effective Severance Tax Rate Needed to Achieve 2009-2010 Budget Goal: 13.78%

Data Source: US Department of Energy, Energy Information Administration

* 2008 Production Data is projected on basis of historical trend

** Effective Tax Rate calculations do not reflect costs of capital

Severance Tax Revenue Projections



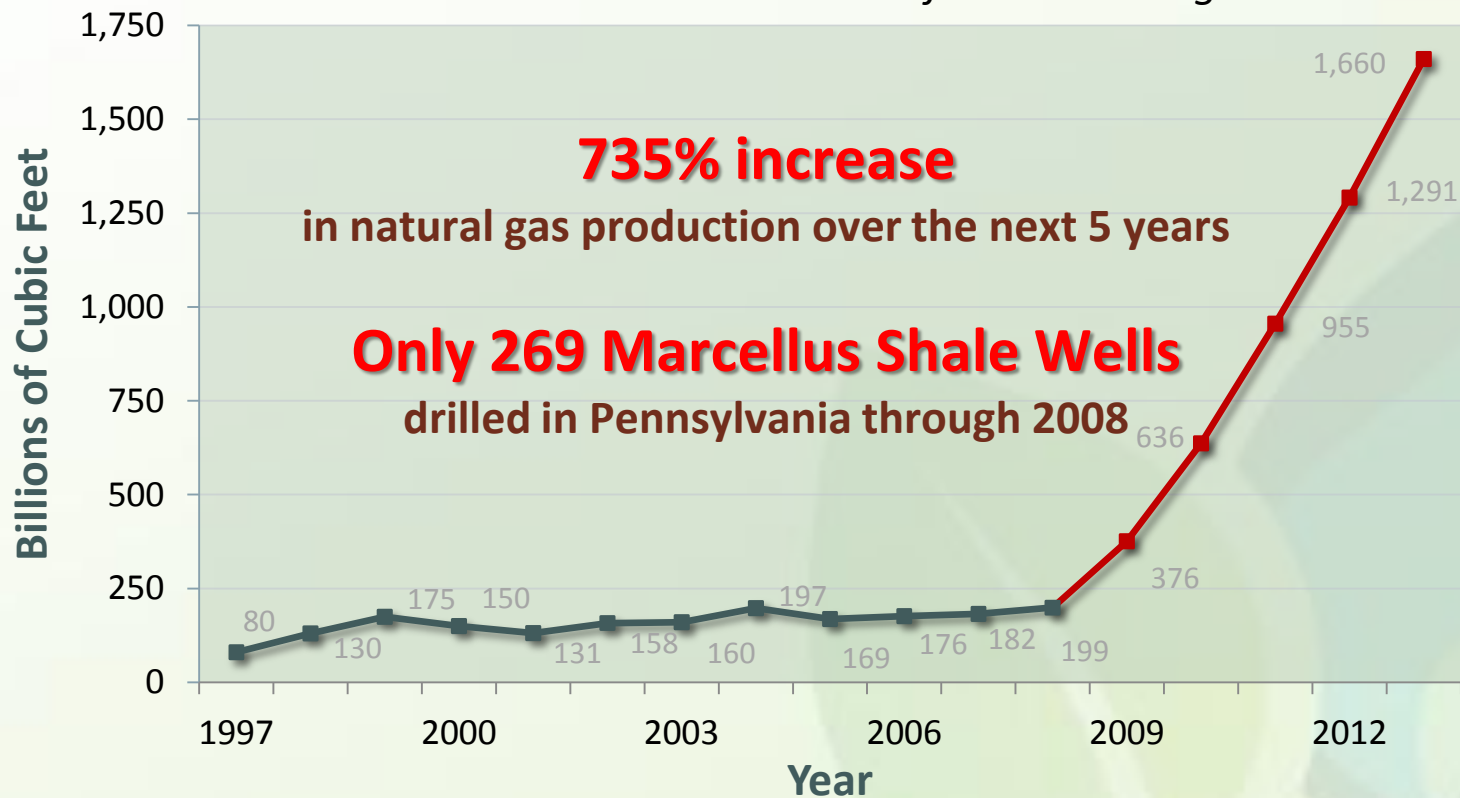
Projected Pennsylvania Natural Gas Production & Revenues

needed to meet Budget Projections through 2013

| Year | MMCF | \$-MCF | Value | Tax Revenue |
|------|------------------|--------|------------------|----------------|
| 2008 | 198,789 | \$8.00 | \$1,590,309,091 | 6.26% Tax Rate |
| 2009 | 375,569 | \$4.56 | \$1,712,460,064 | \$ 107,200,000 |
| 2010 | 636,469 | \$5.92 | \$3,769,968,051 | \$ 236,000,000 |
| 2011 | 955,493 | \$5.91 | \$5,646,964,856 | \$ 353,500,000 |
| 2012 | 1,291,377 | \$6.07 | \$7,838,658,147 | \$ 490,700,000 |
| 2013 | 1,660,238 | \$6.08 | \$10,094,249,201 | \$ 631,900,000 |

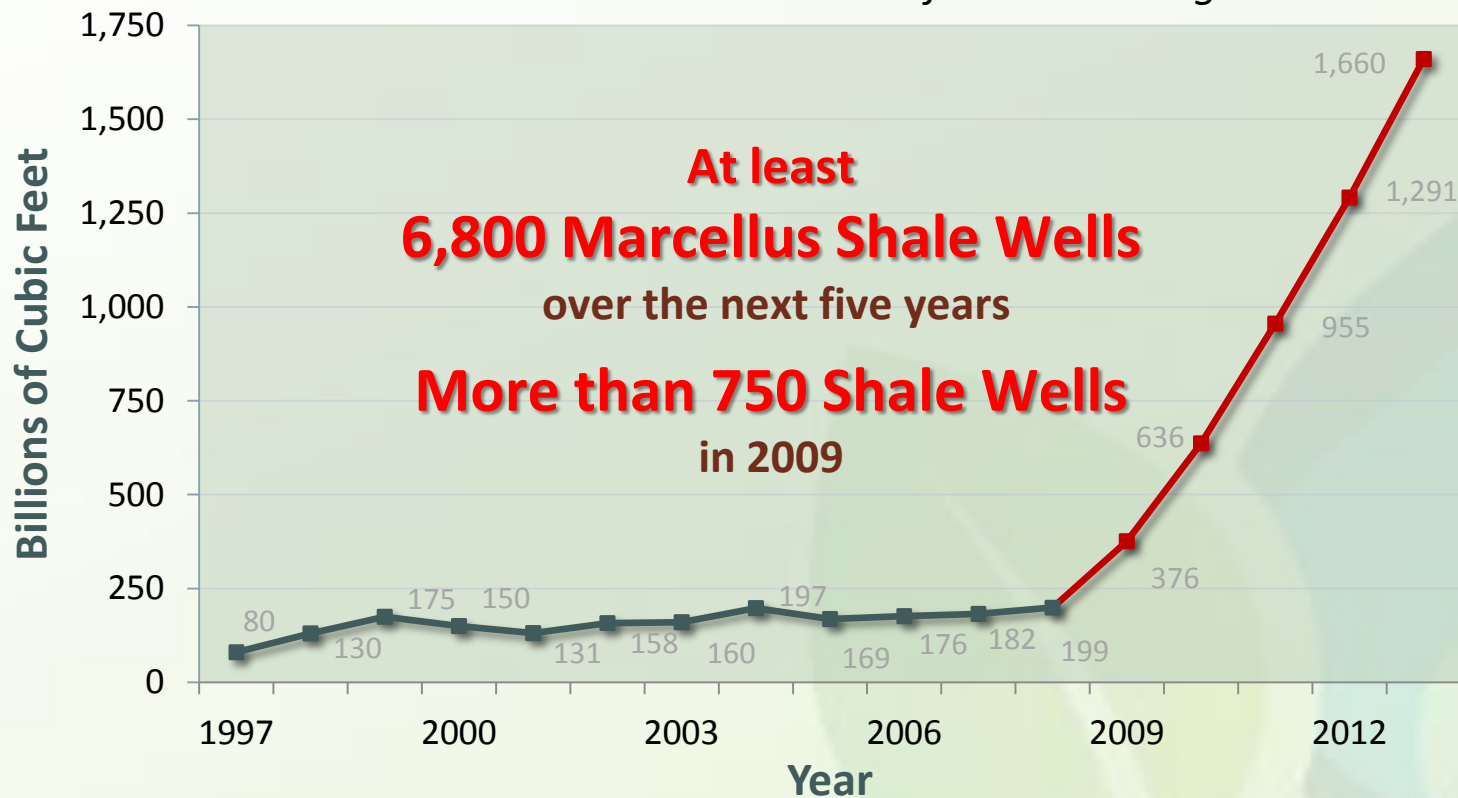
Severance Tax Revenue Projections

Projected Pennsylvania Natural Gas Production *needed to meet Severance Tax Projections through 2013*



Severance Tax Revenue Projections

Projected Pennsylvania Natural Gas Production *needed to meet Severance Tax Projections through 2013*



LEASING STATE FOREST LANDS FOR MARCELLUS SHALE DEVELOPMENT

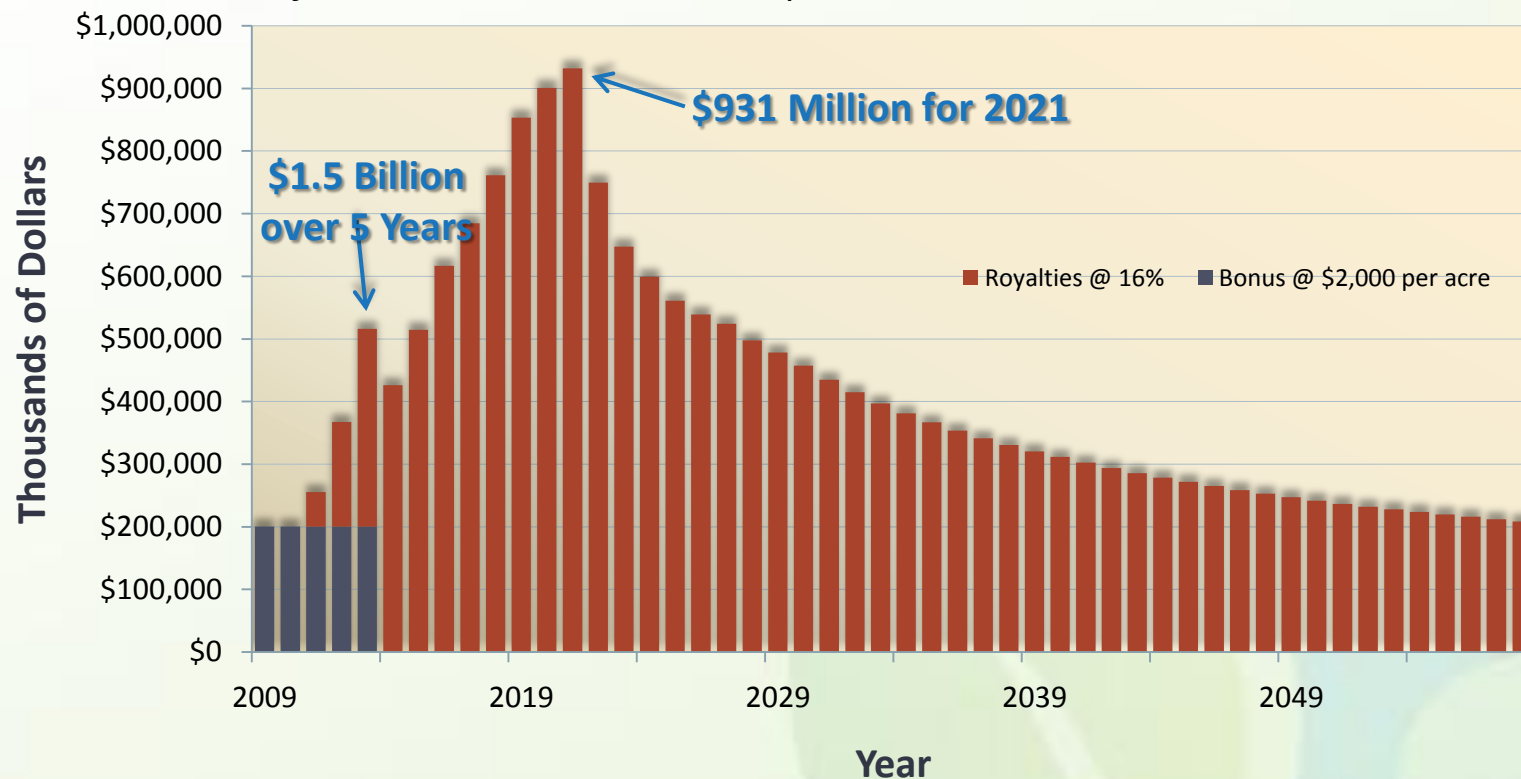
A New Partnership with the Oil & Gas Industry:

- to help address the looming Budget shortfall
- to generate a significant revenue infusion to fund the State Budget for many decades
- to channel revenues to local governments in gas producing counties
- to stimulate the growth of the fledgling Marcellus Shale industry
- to preserve and promote the State's native shallow gas industry

A Better Way - Leasing State Lands

Potential Annual Royalty & Bonus Income

from Marcellus Shale Development on State Forest Lands



Minimum \$2,000 Bid & 16% Royalty
Lease 500,000 acres over 5 years & 6,250 wells drilled over 12 years