

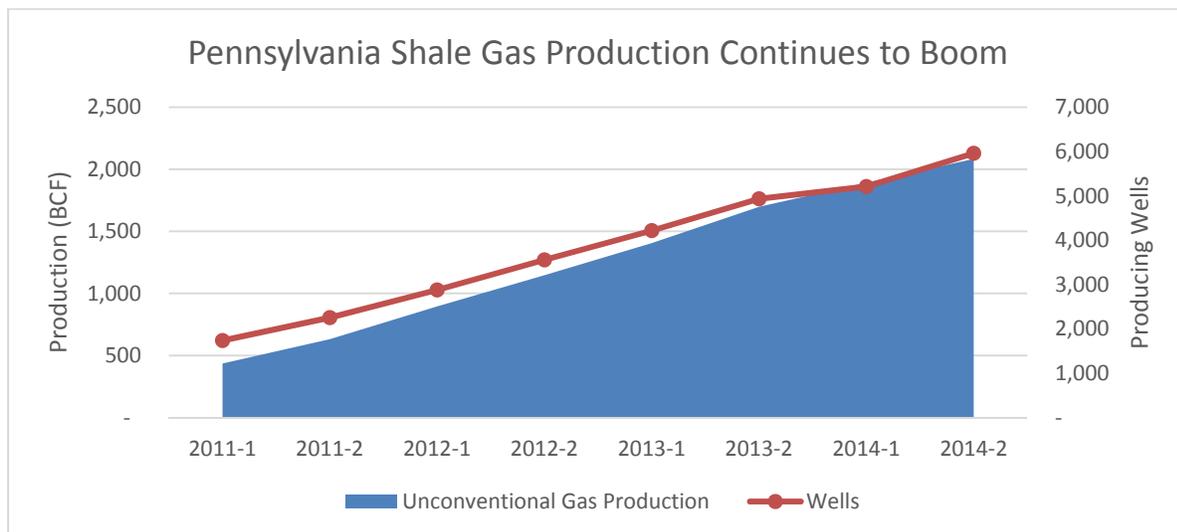
February 20, 2015

Pennsylvania Leaves Money on the Table by not having a Natural Gas Severance Tax

Responding to overwhelming public support for enacting a severance tax on natural gas production, Governor Wolf and several members of the General Assembly have released severance tax proposals in 2015. Actual production results from 2014 show that these plans would generate hundreds of millions of dollars of funding for schools, health care, environmental protection, and other critical needs.

Newly released gas production figures confirm that Pennsylvania is a natural gas production giant – number two in the country following only Texas. Conservatively, the natural gas produced in Pennsylvania had a market value of \$13.9 billion¹ dollars in 2015. Yet Pennsylvania is the only major oil- and gas-producing state without a severance tax.

Growth in both the number of wells and production was strong in the second half of 2014, despite recent low prices. In October 2014, gas insiders said Marcellus operators would still make money even if gas prices remain low in the long term.²



Source. Pennsylvania Department of Environmental Protection

¹ Using the average Henry Hub price less \$1 per MCF (\$3.49 over 2014).

² <http://www.platts.com/latest-news/natural-gas/pittsburgh-pennsylvania/us-northeast-gas-producers-to-make-money-despite-21408391>

This brief examines how much several of the new severance tax proposals would have raised had they been in place in 2014 (using a natural gas price of \$3.49 per MCF - \$1 less than the Henry Hub price).

<i>Plan Sponsors</i>	<i>Bill Number</i>	<i>Tax Rate</i>	<i>Estimated 2014 Yield in Millions</i>	<i>Distribution</i>
<i>Governor Wolf</i>		5% of price + \$0.047 per MCF (similar to WV rate) Replaces Impact Fee	\$881	Public Education Local Communities Other
<i>Reps. DiGirolamo, DeLissio, Murt, and Readshaw</i>	Not assigned	3.2% (on top of Impact Fee)	\$444	Basic Education \$178 Pensions \$156 Human Services \$67 Environment \$44
<i>Rep. Harper</i>	HB 82	3.5% (on top of Impact Fee)	\$486	Pensions \$486
<i>Sen. McGarrigle</i>	SB 519	4%	\$555	Public Education \$555
<i>Sen. Brewster</i>	SB 395	5% (credit for Impact Fee payments)	\$468	Public Education \$468
<i>Sen. Haywood</i>	Not assigned	8%	\$1,111	Growing Greener \$100 Public Schools \$607 Pensions \$404

Many signs point to continued increases in natural gas production. The number of permits issued and the wells drilled increased from 2013 to 2014. Infrastructure and demand constraints are also resolving. The industry is developing additional pipeline capacity. Power plants in the region are switching from coal to natural gas, and a natural gas foreign export facility is opening in 2017. Increases in natural gas prices will only fuel more activity.

Gas production values in 2014 show how much Pennsylvania continues to leave on the table by failing to enact a severance tax. As lawmakers and the governor negotiate the 2015-16 budget, a severance tax should be part of the solution.