



April 2018

The State of Natural Gas in Pennsylvania

Pennsylvania's regulatory and tax environment is stunting job growth and deterring investment. A decade after the Marcellus Shale boom, lawmakers are still debating how to tax the industry instead of fixing the policies contributing to Pennsylvania's increasingly uncompetitive energy market.

High Taxes

- Pennsylvania is the only state in the nation that levies an “impact fee” on natural gas producers in addition to all other business taxes.
- Texas, a top natural gas producer, has no state income tax or corporate tax. Pennsylvania levies both, including the [highest effective flat corporate income tax rate](#) in the country.
- Of the top ten natural gas producing states, two have no individual income tax, two have no corporate income tax, and only four collect death taxes. Pennsylvania levies all three.
- Individual Pennsylvanians, will pay for the budget of any new taxes.
 - The [Independent Fiscal Office \(IFO\) estimates](#) Pennsylvania landowners will bear 7% of the tax and Pennsylvania natural gas consumers will bear almost 20% through higher utility bills. Beyond direct impacts, higher taxes will reduce jobs.
- For Pennsylvania to “be like other gas-producing states,” lawmakers need to **eliminate the state income tax and corporate tax** to match other high-production states.

Heavy Regulation

- The Marcellus Shale Coalition estimates Department of Environmental Protection (DEP) regulations finalized in 2016 raised the cost of operating by [\\$2 million](#) per well.
 - Permit delays and fee increases have worsened this regulatory burden.
- Well permits must legally be issued in 45 calendar days, but some are taking up to [111 days](#)—two to three times the statutory limit.
 - DEP is facing a backlog of 560 pending well permits, which represents about [\\$4 billion in delayed capital investment](#).
- Earth-disturbance permits, which do not exist in Ohio, are also delayed. In the Southwest district, permit reviews increased from 101 days in 2013 to [263 days in 2017](#).
- DEP claims these delays are caused by staffing shortages and could be solved via a [150 percent fee increase](#). However, [recent process changes](#) implemented by the administration reduced permit backlogs, indicating more money is not the only solution. Here are a few examples of the successful changes:
 - Shifting pending permits to regions with the capacity to review additional applications,
 - Reallocating positions within the Office of Oil and Gas Management to equalize workload, and
 - Targeting new hires in key permit review areas.

Declining Investment

- Capital investors are leaving Pennsylvania or avoiding the state, costing industry jobs. Since January 2015, Pennsylvania's mining and logging sector lost **more than 11,500 jobs**.
- In the past few years, major investment deals occurred in other states.
 - ExxonMobil announced a **\$20 billion investment** in the Permian Basin (Texas) that will create 45,000 high paying jobs.
 - A Chesapeake Energy executive announced the Haynesville Shale (Louisiana) is "roaring back." In the past year, **rig operations have increase by 50%** compared to early 2017.
- In contrast to growth in southern shale plays the Marcellus Shales is largely devoid of new investments.
 - Chevron's CEO **noted** in Pittsburgh, "Chevron Appalachia has been operating at a minimum activity level for two years."
 - Braskem America took its \$500 million propane cracking facility to La Porte, Texas instead of locating it alongside an existing facility at Marcus Hook **due to a lack of guaranteed natural gas supply**.
- Pennsylvania's rig count remains **far below the 2012 peak** and down at least 10 rigs since January 2015.
- High taxes, heavy regulatory burdens and limited infrastructure are depressing Marcellus Shale natural gas prices. For example, the New York Exchange (NYMEX) is recording prices around **\$3 per MCF**, while interconnections in Pennsylvania such as the Leidy and Dominion hubs are hovering **around \$2 per MCF**.

Adding Taxes Will Hurt Pennsylvania

- Adding the governor's proposed severance tax on top of the impact fee would create an overall tax rate of approximately 5.04 percent. One of the highest effective severance tax rates in country, higher than Texas and Louisiana rates.
 - The IFO estimates the current impact fee is equivalent to a **2.9% tax**.
 - The Marcellus Shale Coalition estimates the governor's proposal would equal a 2.14 percent tax given a natural gas price of \$3 per MCF.
- Pennsylvania residents already benefit from one of the most lucrative natural gas taxes among top producing states.
 - The impact fee has generated more than **\$1.2 billion** in new revenue since 2012.
 - It generated **\$173 million in 2016**, more than severance taxes of Ohio, West Virginia, Arkansas, and Colorado combined.
 - Pennsylvania landowners have collected more than **\$5.3 billion** in natural gas royalties since 2012 according to the IFO.
- New taxes are not necessary to fund DEP oversight. Lawmakers should look to revising the impact fee disbursement formula before tapping taxpayers.
 - In 2017, the impact fee distributed **\$93 million** directly to local governments impacted by drilling, in contrast **\$6 million** is set aside for DEP oversight.
 - Too often, local government projects funded by the impact fee are **unrelated to drilling impacts**, such as funding for bike trails, a water feature, an amphitheater, tennis courts, pools, and playgrounds.

High taxes, limited pipeline infrastructure and onerous regulations put Pennsylvania energy producers at a significant disadvantage. Higher taxes would give investors one more reason to overlook Pennsylvania.

Natural Gas Severance Tax Rates in Top Producing States

Top Producing States 2017	State	Severance Tax on Natural Gas	Exemptions and Incentives	Top Corporate Net Income Tax Rate	State & Local Tax Burden (percent of state income/national rank)	Effective Severance Tax Rate 2016 (revenue/value)
1	Texas	7.5% of market value	High cost, inactive & stripper well exemptions	none	7.6% / 46	4.20%
2	<i>Proposed Pa. Severance Tax</i>	4 cents/MCF plus impact fee	None	9.99%	10.2% / 15	5.04%
2	Pennsylvania	2.9% ¹	None	9.99%	10.2% / 15	1.10%
3	Alaska	35% of net proceeds from production	Production cost exemptions, location credits & low price off-sets.	9.40%	6.5% / 50	0% ²
4	Oklahoma	7% plus 0.095% excise tax	5% severance tax for 3 years or until production covers costs ³	6%	8.6% / 40	3.00%
5	Louisiana	11.1 cents/MCF	Exempt for 2 years or until production covers costs, exempts gas used in production	8%	7.6% / 45	4.50%
6	Ohio	2.5 cents/MCF	Exempts gas consumed at production site	none ⁴	9.8% / 19	0.70%
7	Wyoming	6% of market value	Exemption for wells drilled 1993-2003	none	7.1% / 48	3.80%
8	Colorado	2-4% of gross income depending on volume	Exemption for stripper wells & property tax deductions	4.63%	8.9% / 35	0.70%
9	West Virginia	5% of gross receipts at well head	Exemption for stripper & shut-in wells	6.50%	9.8% / 18	3.50%
10	New Mexico	7.94% of gross value ⁵	Deductions for royalties & transportation costs, exemption for stripper wells	6.20%	8.7% / 37	7.90%

1. Pennsylvania levies an impact fee on recently drilled natural gas horizontal wells. 2. Low market prices are contributing to a negative tax rate on natural gas. 3. Oklahoma increased their incentive rate from 2% to 5% this year. 4. Ohio levies a Gross Receipts Tax called the Commercial Activities Tax of 0.26%. 5. New Mexico levies three severance taxes, the severance tax (3.75%), Conservation tax (0.19%) and Emergency School Tax (4%).

Sources: Energy Information Administration, Independent Fiscal Office, Tax Foundation, Region Track