Testimony of the

Independent Oil and Gas Association of Pennsylvania

And

Pennsylvania Oil and Gas Association

On HB 10

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well can and is dramatically changed by the drilling of adjacent wells. So a well can have a portion of its reserve drained by an adjacent well on the next property by another producer or have diminished recovery due to changes in the pressure profile within the formation.

Petroleum reservoirs are complex environments. There is no physical way to determine with any kind of confidence what hydrocarbon (oil or gas) volume lies beneath any property or how much of that hydrocarbon can ultimately be recovered. There are variations of porosity and permeability throughout the formation. Calculation of the volume to be expected from a particular well is complicated by these physical attributes.

I am a Petroleum Engineer by background. I have been trained to make certain inferences about the volume of oil and gas in place in a reservoir. However, I cannot pretend to be an expert on this field. Certainly the county assessment offices will not be able to make these calculations. They must be made by some outside entity.

There are individuals who will say they are competent to make these calculations. It is of particular interest though, that US public companies use fewer than ten companies across the nation to make these calculations for their independent reserve analyses. The bulk of these calculations are made by three companies.

Calculation of volumes is only the first step. One must apply a value to these reserves. Unlike a house which will be given an appraisal value once and then keep that value until a county-wide appraisal, oil and gas prices are volatile and constantly changing. Crude oil and natural gas prices have wild price swings caused by variations in supply and demand as well as other issues such as political stability of producing countries, refinery shut-downs for repair, pipeline interruptions and hurricanes.

Throughout the life of a well, the assumptions that go into reserve calculations constantly change. Add to this the impacts of offsetting wells, price volatility, and natural declines in production as reserves deplete and it is obvious that each year the assessment of a wells value will change. This will be a large cost to the counties if the assessments are done correctly.

in the Commonwealth to meet the needs of Pennsylvania consumers. We currently supply 26% of the demand for natural gas in this state, saving consumers millions of dollars in pipeline transportation charges to bring gas from other producing regions. This contribution will rapidly increase with the development of Marcellus shale wells

For those who think increased taxes will not damage the industry, one need look across the state line to see differently. Through most of my career, West Virginia was at least as active in drilling and producing natural gas as Pennsylvania. This trend has reversed dramatically in the last decade as West Virginia's government continued to increase taxes on the industry.

Existing tax burden on Pennsylvania is lower than West Virginia but 30 percent higher than New York and nearly double the tax burden in Ohio. How much higher does our tax burden have to become?

I am sympathetic to concerns of local governments and school districts for the need for increased funding. However, I believe that these folks should be receiving their fair share of revenues already collected by the state government. Perhaps the state should consider a better distribution of the promised windfall of tax revenue from the gaming industry in Pennsylvania rather than limit the investment in new oil and gas wells in the Commonwealth, or distribute more of the taxes already collected on our industry, our service companies, our royalty owners and our employees.

The oil and gas industry in Pennsylvania has little impact on the local governments in the Commonwealth. The only impact is on highways due to the heavy traffic load on local and state roads. Yet the industry is directly responsible for repairing and replacing road damage caused by our operations. Millions of dollars have already been spent by the natural gas industry to repair and replace local roads impacted by our activities. In most cases road quality has increased in areas involved in active drilling in order to accommodate future drilling. These improvements come at no cost to the taxpayer.

This testimony is virtually the same that was delivered by me in September 2007 on a bill designed to accomplish the same result as HB 10.