LEAGUE OF WOMEN VOTERS®
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Welcome to Indiana County.

The League of Women Voters of Pennsylvania and of Indiana County thank you for holding a House of Representatives Finance Committee Meeting in Indiana County and allowing us to speak about a severance tax on Marcellus Shale natural gas extraction. We will be addressing provisions in House Bills 1489 and 2443.

The League of Women Voters of Pennsylvania supports a tax on the severing of the natural gas in the Marcellus Shale formation. It is a fair and equitable tax that is related to the industry's ability to pay. The industry is not floundering; rather companies are paying bonuses to entice mineral rights owners to sign. Drilling companies have demonstrated financial resources in the bids they entered at auction for the right to drill on lands owned by the Commonwealth. Currently Pennsylvania is an importer of natural gas and its consumers pay severance taxes to states where the gas is extracted. Fourteen states produce more natural gas than Pennsylvania, and all of them levy a severance tax.

The League does not support allocating the bulk of the money derived from taxing a finite resource to fund the General Fund.

The League of Women Voters supports creating a severance tax on Marcellus Shale extraction as a revenue source primarily designated for

- the preservation and enhancement of natural resources;

- the monitoring and protection of public health;

- an escrow fund for supporting community adjustment as the industry grows and declines;

- research on the effects of natural gas extraction from Marcellus Shale on the economy, environment, and public health of Pennsylvanians.

The Pennsylvania legislature should regulate very carefully the extraction of natural gas. We must not repeat the environmental damage that coal extraction has caused. Natural resources should be preserved and enhanced. Potential damage to the environment exists at all stages of drilling. production, distribution, and site restoration. Monies need to be set aside for remediation when the finite mineral resource is gone and damage remains.

Monies need to be set aside for potential public health costs. Reports from Colorado and Wyoming indicate that natural gas extraction may cause health problems (Colburn, T., 2007) .The effects of extraction and gas well maintenance on health have not been studied. We do not know the long term effects on the health of drillers, well tenders, and on the people living near wells, compressing stations, pipelines, and storage facilities. There can be unanticipated problems. Money needs to set aside to remediate these problems.

There will be economic needs in affected communities as the extraction industry expands and declines. Money from an extraction tax should be set aside to help those communities adjust to their changing fortunes. In the meantime communities with affected infrastructure will need more than their regular allocation of liquid fuels tax to maintain their roads and bridges.

Revenue needs to be used for research. Legislators need to make good decisions, which are based on unbiased studies. Studies exist that calculate the monetary impact drilling has made in Texas and Louisiana, but are there any studies about the non-economic effects of a burgeoning or declining drilling industry? Research in public health is scanty.

The League of Women Voters supports transparency in legislation and regulations. How the severance tax is structured is important. Simplicity is crucial. Ambiguous language may result in a court striking down the law; deductions will result in less tax being collected (Wood, M. and Ward, S., 2009).

H. B. 2443, modeled after Louisiana's severance tax, proposes a set base. A set base per thousand cubic feet creates a fixed revenue stream that is easier to predict for both the taxed and the taxing body. House Bill 2443 addresses increasing revenues as gas prices go up by using a twelve month average based on the price of gas posted on the Henry Hub. Using Henry Hub figures makes the price of gas transparent. Drilling companies pay the tax quarterly which should reduce bookkeeping costs for both the industry and the Commonwealth.

House Bill 1489 is modeled after West Virginia's severance tax. It appears it would generate more revenue as the price per thousand cubic feet increases. However, the Commonwealth's cost of administration would be higher. The sale of gas at the wellhead would need to be monitored to ensure that the drilling company is selling "at an arm's length," that is not selling at a low price to a subsidiary which then would resell the gas for a higher price, thus depriving the Commonwealth of revenue. The tax is paid monthly to the Commonwealth, creating more paperwork than a quarterly payment.

It will be very difficult for legislators to resist using Marcellus Shale natural gas severance tax revenue to balance a Pennsylvania state budget in a time of falling income and increasing expenses. But mineral extraction comes at a cost. Those costs must be part of the revenue allocations.

References

Colburn, T. (2007). Testimony before the House Committee on Oversight and Government Reform hearing on The Applicability of Federal Requirements to Protect Public Health and the Environment from Oil and Gas Development. Retrieved May 9, 2010, from http://s3.amazonaws.com/propublica/assets/natural_gas/colburn_testimony_071025.pdf

Wood, M. & Ward, S. (2009, April). *Responsible growth: Protecting the public interest with a natural gas severance tax.* Pennsylvania Budget and Policy Center. Retrieved May 9, 2010, from http://pennbpc.org/sites/pennbpc.org/files/Responsible%20Growth%20-%20PA%20Severance%20Tax.pdf

Tuesday, May 11, 2010

Mike Bertolino, Supervisor, Young Township

- Young Township, Indiana County:

  #1 in gas well production
  #1 in number of gas wells in the county – 950
  #1 in coal produced – over 500,000,000 tons
  46 miles of roads to maintain
  Annual budget = $300,000 (near the bottom in the county)

- Recent research shows a group of 65 wells drilled in the 1970s in Young Township on the average are producing 900,000 cu ft per day @ $4.00 (current cost for 1000 cfm) = $3600 per day, $108,000 per month, $1.3 million per year for these 65 wells or approximately $20 million for the 950 wells in Young Township

  Revenue to township = $0

- Road Bonding – Amounts Determined by PennDOT

  Dirt Road - $6,000 per mile
  Paved Road - $12,500 per mile

  Cost of repairs – dirt road - stone, 2 inches thick, 12 ft. wide
  528 tons @ 17.90/ton = $9,451.20 (materials only)
  Cost of repairs – paved road - asphalt, 1 inch thick, 12 ft. wide
  422.4 tons @ 70.00/ton = $29,568 (materials only)

- Propose a $200 fee per active well, per year (approximately $17 per month, per well)

  Allow the host municipality to charge a fee to the gas companies
  Revenue to township = $190,000/year (mere one percent of $ generated from 950 wells)