Pennsylvania Grade Crude Oil Coalition
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June 1, 2015

Joint Public Hearing
A Proposed Severance Tax on Natural Gas

Pa Senate Environmental Resources and Energy Committee
Pa Senate Finance Committee

To Committee Members,

My name is Bruce Grindle and I am here today to testify as Vice President of the Pennsylvania Grade Crude Oil Coalition (PGCC) regarding a Proposed Severance Tax on Natural Gas.

The Pennsylvania Grade Crude Oil Coalition (PGCC) was formed in the summer of 2013 by 20 producers and refiners of conventional oil and gas to advance local economies and energy independence by promoting conventional oil and gas production in a safe and environmentally sound manner. We now have over 100 members, all of which are small businesses with the vast majority being locally owned.

The imposition of a severance tax at this time is ill advised and would take the wind out of the sails of the one sector of Pennsylvania's economy (Unconventional Oil and Gas Industry) that has been growing. According to a project of National Public Radio, the PA Department of Revenue collected approximately $2 billion in taxes between 2007 and 2013 from corporate and individual taxes attributable to oil and gas. Despite the assertion of some administration officials that oil and gas companies will not leave Pennsylvania for more favorable economic climes, they must recognize that capital for investment always follows the path of least resistance. Pennsylvania's overall tax policy is so bad that it ranked behind almost all of the states in the US, and Canada in a 2013 survey of oil company executives conducted by the Fraser Institute. The purpose of the survey was to look at the barriers to investment that oil and gas companies experienced around the globe (emphasis added). Overall Pennsylvania ranks in

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the “second quintile” in terms of attractiveness for development of oil and gas. The question we should be asking ourselves is where will we rank after the imposition of a severance tax.

The biggest component of the tax environment for Pennsylvania corporations is, not surprisingly, the corporate tax rate. Pennsylvania’s 9.99 percent corporate income tax is the second highest corporate tax rate in the United States.

The imposition of a severance tax on the conventional oil and gas industry in Pennsylvania would most certainly be the final nail in the coffin of an industry that has been an economic engine and part of the Western Pennsylvania landscape for over 150 years. Historically low commodity prices that are further discounted by a negative trading basis and ever increasing regulatory compliance costs have already resulted in a dramatic decrease in conventional well development (refer to graph & spud data). The number of conventional wells drilled in Pennsylvania has declined steadily from a high of 4,834 wells drilled in 2007 to a projected 300 to 400 wells drilled in 2015. That is a remarkable decline of over 90 percent in just 8 years. Bear in mind that most of these conventional wells are drilled by small Pennsylvania businesses that pay taxes in Pennsylvania and don't have the option to pack up and move to another state or country where the economics may be better. Suffice it to say that any additional economic burden on the Conventional Oil and Gas industry will result in the majority of conventional operators shuttering their businesses and plugging their wells. If that occurs, it will not only affect the owners of those businesses, but their employees, suppliers and subcontractors will also suffer an unnecessary negative economic impact. In addition, tens of thousands of lessors will no longer receive monthly royalty checks or be provided with free gas for home use. Those operators that do not have sufficient cash reserves to meet their debt and plugging obligations will be forced to declare bankruptcy. If that occurs, the taxpayers of Pennsylvania will bear the financial burden of plugging their wells. Finally, without a Conventional Oil and Gas Industry in Pennsylvania there will be no need for the ARG oil refinery in Bradford Pa. That will result in the

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loss of jobs both direct and indirect and tax revenues for a community that can sorely afford to lose jobs or tax dollars.

In regard to the severance tax bills (SB 116, SB 519, SB 719) that have been referred to the Senate Environmental Resources and Energy Committee, PGCC would recommend that language be added to define a Conventional Formation along with providing an exemption from the imposition of a severance on gas, natural gas liquids and oil severed from Conventional Formations. The language must be unambiguous and not allow taxing authorities or other governmental agencies to interpret the legislative intent of any bill. PGCC has met with some of the sponsors of the current Severance tax bills and are willing to meet again to help craft such language.

Sincerely,

A. Bruce Grindle

Vice President Pennsylvania Grade Crude Oil Coalition
President & Co-Founder Oil & Gas Management, Inc
Citizen