anga
America's Natural Gas Alliance

Testimony Submitted to
Pennsylvania Environmental Resources & Energy and
Finance Committees
Regarding A Proposed Severance Tax on Natural Gas
Monday June 1, 2015
Paul Hartman, Regional Director, State Affairs
America's Natural Gas Alliance (ANGA)

Chairmen Yaw and Eichelberger and members of the Environmental Resources & Energy and Finance Committees, thank you for the opportunity to submit testimony regarding the proposed severance tax on natural gas produced in the Commonwealth of Pennsylvania on behalf of America's Natural Gas Alliance (ANGA).

ANGA is a national trade association representing the leading independent natural gas exploration and production companies. We work with industry, government and customer stakeholders to increase demand for, and ensure availability of, our nation's natural gas resources for a cleaner and more secure energy future.

As we have stated previously, ANGA opposes the natural gas severance tax proposed by Governor Wolf. However, we continue to seek ways to work collaboratively with the governor, his administration and the legislature on solutions to strengthen our energy security, grow our economy and protect our environment.

The governor's proposed tax policy will stifle Pennsylvania's economic growth and harm employment opportunities. Pennsylvania's natural gas industry contributed $225,752,000[1] in impact tax revenues in 2013. These fees helped support essential services in the areas where we operate. The new, additional proposed taxes will reverse the positive economic benefits realized over the last few years as a result of Pennsylvania's shale gas revolution. ANGA also would like to further express our commitment to work with policymakers on solutions that will continue Pennsylvania's natural gas success story.

In 2014, Pennsylvania experienced a record-setting year of natural gas production. The nearly four trillion cubic feet of production last year alone helped increase disposable income for families and drove profitability for Pennsylvania businesses. For example, residential customers of the commonwealth's largest natural gas distribution company – UGI Utilities - saved $350 million in 2014 compared to what they paid in 2008. And over the last five years, UGI has helped more than 45,000 customers convert to natural gas.

[1] https://www.act13-reporting.puc.pa.gov/Modules/PublicReporting/Overview.aspx

Lower energy bills and subsequent induced spending is growing Pennsylvania employment. In fact, the commonwealth's unemployment rate has been lower or equal to the national average for the last several years.[2] Under current tax policies, Pennsylvania has grown its economy and employment, and Pennsylvania natural gas has supplied the rest of the country with an abundant, affordable energy resource to help power America.

The severance tax proposed by Governor Wolf will stifle this progress. As the governor has stated before, there should be a level playing field when it comes to business taxation. Singling out the natural gas sector with a special tax because of its economic success, which has touched all parts of the state, is misguided. Moreover, Pennsylvania already has a separate tax on the shale gas industry – the local impact tax, which raised $225 million in 2013.

We agree that the discussion of the imposition of additional taxation on this industry should be based upon the economic facts facing natural gas producers. Our members – who are some of the most prolific producers in Pennsylvania - oppose additional energy taxes squarely because of the facts.

The energy industry is highly mobile. While modern natural gas drilling rigs can actually "walk," company investment dollars can run. The governor's proposal to set a natural gas price floor of $2.97 per thousand cubic feet is not based on facts. Recent Pennsylvania trading points are selling natural gas at roughly half the arbitrary $2.97 floor, or even less. That's like selling a kitchen cabinet for $50, but requiring the manufacturer to pay tax as if it sold for $100.

ANGA's member companies share the governor's passion to move Pennsylvania forward, but a severance tax in the step in the wrong direction. The latest severance tax analysis conducted by Natural Resource Economics, Inc.[3] finds that the tax will reduce the number of wells drilled by more than 1,300 from 2016 to 2025, leading to a cumulative drilling investment loss of $11.5 billion. Further, cumulative losses in natural gas and liquids production amount to $11.2 billion over the same period.

To spur the manufacturing sector, let's compete against the world with low-cost energy. Through not only sensible tax policy, but also embracing infrastructure build-out (in particular transmission pipelines), we can put more natural gas in the marketplace and lower both electric and gas bills for manufacturing, industrial and commercial users. In the U.S. plastic manufacturing sector, a recently issued report finds that "shale gas development has changed

---

[2] U.S. Bureau of Labor Statistics http://bit.ly/1AyjLoa

[3] American Petroleum Institute, "The Economic Impacts of the Proposed Natural Gas Severance Tax in Pennyslvania," April 2015. http://www.api.org/~/media/files/policy/taxes/2015/economic-impacts-of-the-proposed-natural-gas-severance-tax-in-pennsylvania.pdf

the competitive landscape for U.S. plastics...over the next decade a combined 461,800 direct, indirect and payroll-induced new jobs will be created due to shale-advantaged production."[4]

The natural gas industry is also at a critical juncture when it comes to the discussion of securing long-term markets for Pennsylvania natural gas. Currently, the six governors of New England are grappling with proposals to secure a better energy future for their states. High energy prices during the last two winters have the New England states working collectively on a regional approach to address their energy needs. One solution, they have identified is to increase natural gas infrastructure to supply power generation and meet home heating needs. New England states are looking at the natural gas produced in Pennsylvania as part of the solution to meet their regional energy challenges. Should the level of production or long-term supply forecasts be jeopardized by business uncertainty in the commonwealth, this large market may look to secure other options for their energy needs, whether it is increased hydropower, renewables or the importation of liquefied natural gas (LNG) from producers outside of Pennsylvania. The instability in Pennsylvania production resulting from the implementation of a severance tax could have ramifications on potential markets for that natural gas - manifesting itself as a significant missed opportunity by this administration.

ANGA believes that the discussion of additional natural gas taxation should be focused on the impacts to the natural gas industry and the corresponding long-term economic impacts. Despite proponents' efforts to link the issues, this is not a discussion about the quality of Pennsylvania's educational system.

ANGA members stand behind Pennsylvania educators and workforce development leaders. We understand the value of a strong workforce to draw from, which is why for the last several years the natural gas industry has worked with Pennsylvania schools to provide equipment, expertise, internship opportunities and most notably, millions in financial support. Further, as a result of robust natural gas production, Pennsylvania schools are saving millions on energy bills. And more Pennsylvania schools (like Messiah College, Penn State University, Susquehanna University, Elk Lake School District, Warrior Run School District, Bethlehem Area School District and many more) are converting to natural gas or expanding their natural gas use.

In short, enacting this long-term tax to address a temporary budget shortfall is short-sighted and jeopardizes jobs and future economic growth. Alternatively, there is a great opportunity to boost economic development and grow Pennsylvania's tax base by supporting critical infrastructure projects that will carry shale gas throughout Pennsylvania and to nearby markets.

We look forward to working with the General Assembly and the Wolf Administration to identify better solutions to address the state's budget issues without hampering the commonwealth's energy renaissance. Thank you for the opportunity to submit this testimony.

---

[4] American Chemistry Council, "The Rising Competitive Advantage of U.S. Plastics," May 2015. http://plastics.americanchemistry.com/Education-Resources/Publications/The-Rising-Competitive-Advantage-of-US-Plastics.pdf