Dispute Over Pa. Gas Drilling Fees

KEVIN BEGOS, Associated Press

PITTSBURGH (AP) — There's been plenty of controversy over Marcellus Shale natural gas drilling in Pennsylvania, and now tax rates are part of the debate, too.

Gov. Tom Corbett's energy executive is questioning research that suggests Pennsylvania's Marcellus Shale impact fee will generate billions of dollars less in long-term revenue than the same natural gas production in West Virginia. But, a Democratic candidate for governor said the math is correct.

The Pennsylvania Budget and Policy Center made the long-term comparison to what a 5 percent tax such as West Virginia's would generate, but Energy Executive Patrick Henderson said in emails Monday and Tuesday that the group has a liberal bias.

Henderson said the Pennsylvania fee encourages investment and that "a job for a Pennsylvanian beats enacting a new tax."

John Hanger, a Democratic candidate for governor and former head of the state Department of Environmental Protection, said "the math is the math" and that the Policy Center analysis is accurate.

"We have this ridiculous fee," Hanger said. "First, it's way too little. It amounts to a huge subsidy to the gas industry at the expense of schools and other vital services. We need a tax like Texas and West Virginia."

All such projections are subject to changes in production and prices, and states with major oil and gas production take vastly different approaches to taxation, ranging from Alaska's top rate of 25 percent to a few states that charge no taxes at all.

The Pennsylvania fee is essentially based on the numbers of wells drilled and on the wholesale price of gas, so when prices plunged last year, the impact fee revenue declined, even though the amount of gas produced roughly doubled. Prices have since rebounded.

In an independent review, the AP found that at the current pace Pennsylvania gas production could generate the equivalent of $16 billion in company revenue in 2015, if wholesale prices are at the current $4. At West Virginia's 5 percent tax rate, that would generate about $800 million.

But the policy center estimates that the Pennsylvania impact fee will generate $237 million to $261 million in 2015, depending on the number of wells drilled and prices. By 2020, the center estimates that the impact fee will generate an equivalent effective tax rate of about 1.3 percent, so that over 20 or 30 years it may generate

$10 billion or $15 billion less than a flat tax on production.

Hanger said that's far too low.

"The governor can say a long term effective tax rate of 1 percent is appropriate. I disagree," Hanger said.

Christopher Lilienthal, a spokesman for the Pennsylvania Budget and Policy Center, wrote in an email that they used publicly available data "to evaluate the state's Marcellus Shale policy under both Democratic and Republican governors."

"We use a methodology that is common among energy economists and researchers. We stand by our findings," Lilienthal wrote.

Rep. Greg Vitali, D-Delaware, said he recently proposed a 3 percent flat tax on the market value of gas produced in Pennsylvania, but the legislation failed to pass.

"I think the impact fee is grossly inadequate. It cries out to be corrected," Vitali said.

Kathryn Klaber, the president of the Marcellus Shale Coalition, an industry group, has noted that increasing tax rates on drilling would slow investments, thus leading to lower production. There's been a big debate over that very issue in Alaska, where production has declined. Last month, the Legislature passed a multibillion-dollar oil tax cut in an attempt to boost investment in new drilling.

Henderson also notes that oil and gas operators have also paid more than $1.7 billion in corporate state taxes since 2007, so just looking at the impact fee revenue doesn't tell the whole story.

The drilling boom has also generated billions of dollars in royalties for property owners, and boosted jobs and local economic activity.

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