MEMORANDUM

TO: All Members of the General Assembly

FROM: David J. Spigelmyer, President
Marcellus Shale Coalition

DATE: June 27, 2014

RE: Energy/Severance Tax Proposals

As you and your colleagues continue to develop a new budget, our organization would like to state our opposition to the current energy, or severance, tax proposals being discussed as part of the budget.

In our strong opinion, new energy taxes will harm job growth and small businesses in Pennsylvania, which ranks 44th in CNBC's recently published "*America's Top States For Business*" report due to our high tax and regulatory burdens.

Despite Pennsylvania's harsh business climate, shale development – and the billions invested into our state – has been and continues to be a powerful source of job creation and revenue for the Commonwealth and local communities.

Thanks to shale development – and the tens of thousands of good-paying, local jobs that this growing industry supports, especially for small businesses and labor organizations – Pennsylvania's unemployment rate is now well below the national average and the lowest it's been since the recession began in September 2008.

Moreover, shale development has:

- Generated more than $2.1 billion in various taxes across the state;
- Produced $630 million in addition tax revenues through impact fees payments;
- Help created and support nearly 245,000 good-paying Pennsylvania jobs; and
- Has been part of a natural gas manufacturing renaissance in Pennsylvania and has also led to the development of new natural gas distribution systems in the state.

By nearly every measure, Act 13's impact fee framework is working for Pennsylvania, enabling game-changing contributions to be made for local economies throughout our state.

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However, proposals to more than double the tax burden on shale production risk driving investment elsewhere, significantly altering our industry's job growth and retention potential, and directly reducing the opportunities being generated for small businesses, local governments and organized labor across the Commonwealth. These economic realities cannot be overstated.

This industry has also led to a great deal of infrastructure improvements in Pennsylvania – something that cannot be understated. New roads, bridges and pipelines have modernized Pennsylvania for a bright future.

Pennsylvania has far too much to lose if we fail to get this generational opportunity right, potentially altering the course of this industry and its full economic potential by raising taxes through a hastily developed scheme simply to fill a one-time budget shortfall.

Very recent history, in fact, provides a clear indication of what lies ahead should the current energy tax proposals be adopted and why our opposition is emphatic:

- Following Act 13's passage in February 2012, Pennsylvania's rig count dropped by 16 in two weeks and by more than 70 in the following seven months. The second most active driller in the Commonwealth dropped from 13 rigs to one. Added impact fee-related costs -- coupled with lower commodity pricing and limited take-away pipeline capacity -- cut Pennsylvania's rig count by more than 50 percent. Rig count is an indicator of jobs being generated and economic opportunities being developed for Pennsylvanians. In no uncertain terms, new taxes will reduce both.

- Shale development is highly capital intensive and we have learned that these resources can move quickly. Operators in Pennsylvania are presented with a number of options to shift capital expenditures to more competitive shale plays across the United States, including neighboring Ohio, which is poised to adopt a 2.5% severance tax coupled with critical investment incentives. Indeed, Pennsylvania's natural gas is not going anywhere, as many state frequently. But a new energy tax above the current impact fee and other taxes paid by our companies and contractors will place Pennsylvania at a competitive disadvantage and rigs may move to other states, like Ohio, where economics are more favorable -- and the jobs would follow. This can also strand billions of dollars in infrastructure investments in pipelines and related facilities in the Commonwealth.

- A new energy tax could also discourage continued and further exploration and production activity in non-core Marcellus Shale areas. Pennsylvania currently has two clearly defined, active production areas -- the southwestern natural gas liquids-rich region and the northeast, which is a highly-productive dry gas region. Counties in between generally have far fewer rigs and less development but continue to attract exploratory drilling capital. In the north central Pennsylvania counties where some exploratory capital is currently being invested, these areas could be squeezed from the play altogether. This would create significant economic hardships for north-central Pennsylvania.

- Opportunities are now just beginning to unfold for the southeastern region of the Commonwealth as shale has generated new business potential in the Port of Philadelphia, the shipyard and the region's refineries. The success or failure of this opportunity is dependent upon continued production growth and new natural gas liquids supply generated from the investments being made in the liquids-rich window of southwestern Pennsylvania. Adding new costs through higher energy taxes may jeopardize that promising growth in southeastern Pennsylvania.

We are making positive and meaningful economic progress across the Commonwealth, with more opportunities tied to shale development being created each day for small businesses, manufacturers and organized labor. The future opportunities for all of Pennsylvania will continue to grow if we advance common sense policies aimed at promoting this promising industry. These broad-based benefits will without question far outweigh any short-term proceeds generated from a new energy tax.

Make no mistake: new energy taxes risk making Pennsylvania even less competitive and cost jobs.

Our organization remains committed to working collaboratively with the General Assembly to find workable, pro-growth policies that do not harm jobs.

We ask that you thoughtfully consider the negative economic realities associated with new energy taxes. Please work to ensure that Pennsylvania's priorities remain focused on expanding opportunity and job growth.

cc: Governor Tom Corbett