July 21, 2025

The Honorable Scott Hutchinson, Chair
Senate Finance Committee
337 Main Capitol Building
Harrisburg, PA 17120

The Honorable Nick Pisciottano, Democratic Chair
Senate Finance Committee
460 Main Capitol Building
Harrisburg, PA 17120

Dear Chairman Hutchinson and Chairman Pisciottano:

Recently, Senate Bill 910 was introduced and referred to the Senate Finance Committee. On behalf of the Marcellus Shale Coalition (MSC), I write to express our strong opposition to this legislation, which seeks to impose a punitive severance tax on Pennsylvania natural gas producers and royalty owners.

As you know, Pennsylvania currently imposes an Impact Fee – the Commonwealth's version of a severance tax – on unconventional natural gas producers. With the release of the 2024 Impact Fee collections earlier last month, Pennsylvania unconventional natural gas producers have now paid nearly $3 Billion in new revenues, on top of the billions of other dollars collected on other business taxes imposed on Pennsylvania producers.

Much has been made that Pennsylvania is the "only state" which does not impose a traditional severance tax. The inverse is true as well: Pennsylvania is the only state which imposes an Impact Fee, where the revenue is transparently collected, distributed and used to the benefit of local communities and environmental projects in every county of the Commonwealth.

The reality is that every state imposes their version of a tax differently, accounting for unique factors within that state and tax decisions made as part of a broader consideration of that state's business and regulatory climate.

With respect to Senate Bill 910, the prime sponsor of the legislation, Senator Haywood, has sought to draw comparisons between the amount of revenue generated by the state of Texas and Pennsylvania. In advocating for a higher tax rate – one which the co-sponsorship memo says will do "no harm to industry" – several critical and salient points are omitted. The following seeks to address some of these comparisons in greater detail.

Severance Tax Rate

It is alleged that Texas imposes a 7.5% severance tax rate, while Senate Bill 910 only imposes a 6.5% severance tax rate.

First, it is important to note that under Senate Bill 910, unconventional operators would pay the 6.5% tax rate <u>plus</u> the Impact Fee currently imposed. Adding these two taxes together results in the highest effective severance tax rate in the nation. It is also worth noting that, as constructed, Senate Bill 910 imposes the severance tax on conventional operators as well.[1]

More to the point, however: Texas provides for a significantly reduced introductory severance tax rate (of up to 50% - 100% tax rate reduction) to allow for the recovery of capital investment. In some cases, the effective tax rate for wells may be 0% - 3.75%. The exact deduction can vary based upon a state formula that calculates well construction costs.

This reduced tax rate is a significant benefit to Texas' ability to attract capital investment. Other competitor natural gas producing states to Pennsylvania, including Oklahoma, Arkansas and Colorado, also have either a capital cost recovery or reduced introductory tax rate. For reference, Senate Bill 910 provides for no capital investment recovery for the operator; neither does the current Impact Fee.

Pennsylvania's Impact Fee is also unique in that an operator must pay the fee for up to the first three years of a well's life even if the well is not put into production. Pennsylvania is, to our knowledge, the only state in the nation that imposes and collects a tax on a natural gas well which is not producing natural gas or generating revenue.

Other Taxes

Each state imposes a suite of business or personal taxes presumably in consideration of the totality of the impact on their businesses and residents.

Pennsylvania, for example, imposes one of the highest corporate net income tax rates in the country and a 3.07% personal income tax (among other taxes[2]). Texas, on the other hand, does not have a personal income or corporate net income tax.

Associated Natural Gas

Pennsylvania is unique among shale producing states in that it is a pure natural gas producing basin. By comparison, most of the states and basins which Pennsylvania competes with for capital investment have shale formations capable of producing both oil and natural gas.

As such, operators in other basins, such as the Permian (Texas and New Mexico) and Bakken (North Dakota and Montana), are able to model their economics upon the production of oil – but still capture and market natural gas that is produced out of the same wellbore. This scenario – referred to as "associated natural gas" – significantly alters the competitive landscape for a pure-natural gas producing state like Pennsylvania.

Put simply, the cost of producing a unit of natural gas in a state like Texas is much less than in a state like Pennsylvania.

[1] While the co-sponsor memo for Senate Bill 910 says that its intent is to "enact a shale tax", Senate Bill 910 makes no distinction between conventional or unconventional (shale) natural gas.

[2] The MSC does not infer that businesses are paying both a corporate net income and personal income tax; rather that these are but examples of broader taxes imposed in the Commonwealth which may impact competitiveness.

Impacted Royalty Owners

Unless a lease currently states otherwise, a severance tax – unlike an Impact Fee – is the responsibility of both the producer of natural gas and the royalty owner. Likewise, legislation which seeks to impose a severance tax only on a producer but not the royalty owner will most assuredly run afoul of the Pennsylvania constitution's contract impairment clause.

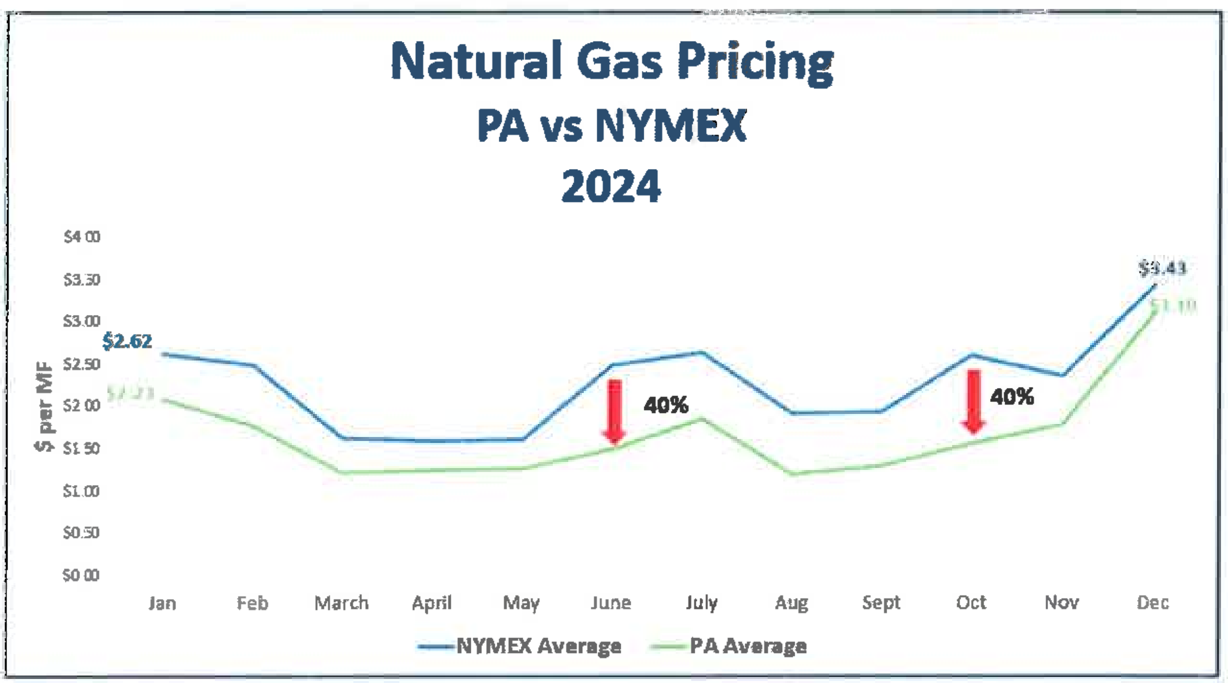
Given this reality, and presuming an average royalty rate of 15%, Senate Bill 910 would have resulted in a tax increase of approximately $118.9 Million on Pennsylvania royalty owners in 2024.

Pennsylvania Natural Gas Price Disparities

It is well understood that natural gas producers and royalty owners in Pennsylvania receive significant discounted prices compared to national index prices such as the Henry Hub or NYMEX. This discount has been in place for over a decade, attributable to and aggravated by constrained market outlets due to a lack of pipeline infrastructure.

At times over the past decade, this discounted price has reached nearly 70% at certain times of the year. Stated more clearly: there are times when Pennsylvania producers and royalty owners have only received 30 cents for every $1 that an out-of-basin competitor is receiving in the market.

In 2024, the average discount for Pennsylvania operators and royalty owners was 30%:



Conclusion

Pennsylvania's unconventional operators are proud of their contributions to the Commonwealth: more jobs, lower consumer costs, significant economic activity, an enhanced environment and air quality, and financial support for communities across the state.

MARCELLUS SHALE COALITION®

Imposing additional taxes simply costs Pennsylvanians jobs, discourages capital investment, and conveys to businesses that their state government views them as nothing more than an ATM.

We remain opposed to Senate Bill 910 and similar legislation and urge the General Assembly to instead focus on policies which encourage economic growth, spur downstream demand for natural gas resources, and reward those willing to invest in our Commonwealth.

Thank you for your consideration of these comments.

Sincerely,

Patrick Henderson
Vice President
Government Affairs & Communications