



Associated Petroleum Industries of Pennsylvania

A Division of the American Petroleum Institute

TESTIMONY OF
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BEFORE THE SENATE
ENVIRONMENTAL RESOURCES AND ENERGY COMMITTEE
&
FINANCE COMMITTEE

Chairman Eichelberger, Chairman Yaw, Chairman Blake, Chairman Yudichak and members of the Senate Finance Committee and Environmental Resources and Energy Committee, on behalf of the Associated Petroleum Industries of Pennsylvania (API-PA) thank you for the opportunity to submit comments for the record regarding the proposals to enact an additional energy tax, also referred to as the severance tax.

API-PA is a division of the American Petroleum Institute (API), a national trade association that represents all segments of America's technology-driven oil and natural gas industry. Its more than 625 members – including large integrated companies, exploration and production, refining, marketing, pipeline, and marine businesses, and service and supply firms – provide most of the nation's energy and are backed by a growing grassroots movement of over 25 million Americans. The industry also supports 9.8 million U.S. jobs and 8 percent of the U.S. economy, and, since 2000, has invested over \$3 trillion in U.S. capital projects to advance all forms of energy, including alternatives.

API is also a standard setting organization. For 90 years, API has led the development of petroleum and petrochemical equipment and operating standards. These standards represent the industry's collective wisdom on everything from drill bits to environmental protection and embrace proven, sound, engineering and operating practices and safe, interchangeable equipment and materials for delivery of this important resource to our nation. API maintains more than 650 standards and recommended practices. Many of these are incorporated into state, federal, and international regulations. API encourages and participates in the development of state regulations that are protective of the public, the environment and the industry workforce.

API-PA member companies are opposed to proposals to institute a severance tax. To be absolutely clear, we are opposed to additional energy taxes, not just the governor's severance tax proposal. To put it succinctly, increasing energy taxes is simply bad public policy. We respectfully request that you reject attempts to enact additional energy taxes.

Because we do not support increasing energy taxes, we have been accused of “letting down our commonwealth”, not paying our “fair share” and dismissed as hypocrites. To the contrary, the facts present a very different picture – the industry has paid more than \$2 billion in taxes in Pennsylvania since 2007, paid more than \$630 million in local impact taxes, and makes significant positive contributions to the commonwealth.¹ The future potential is immense – that is, if we get our fiscal policies and regulations right.

It is time to call the local impact fee what it really is – a severance tax. It was called a local impact fee for a variety of reasons; but, regardless of what it’s called the effect is the same – helping communities, counties and local governments. Not only does the local impact tax help local communities, it also helps support government programs, including Conservation Districts, the Department of Environmental Protection, the Environmental Stewardship Fund, housing programs, and environmental grant programs.

In 2014, the Department of Environmental Protection’s (DEP) oil and gas program was in financial disarray. DEP asserted that it needed to upgrade technology, and hire more inspectors, clerks and other personnel in order to do its job effectively. The industry agreed to increased permit fees for increased regulatory oversight of the industry, process permit applications more efficiently and further protect the environment. The industry was supportive of the Department when it faced these challenges. Now, DEP’s oil and gas program is largely funded through fees generated by the industry.

The industry also has helped school districts and state and local governments save big on their energy bills. According to an IHS Global Insight study done in 2014, Pennsylvania’s public schools directly benefited from the shale revolution. The study estimated energy savings during the 2012-2013 fiscal year that resulted from unconventional oil and natural gas production. In total, Pennsylvania public elementary and secondary school districts saved approximately 8.3% on electricity and 22.1% on natural gas, for a total of \$45.5 million, enough to employ 480 teachers. State and local governments saved an estimated \$19 million, or the cost to employ about 280 government workers.

The oil and gas industry also helps Pennsylvanians save for retirement. Returns on state pension funds in Pennsylvania from investments in oil and natural gas companies continue to provide strong earnings for public pension retirees, including teachers, firefighters and police officers, according to a recently released Sonecon study. Nationwide, oil and natural gas stocks also outperform other assets, according to the report. While oil and natural gas stocks make up, on average, 4 percent of holdings in the top public pension funds, they accounted for 8 percent of the returns in these funds from 2005 to 2013. The owners of America's oil and natural gas companies are largely retirees and middle class Americans saving for retirement.

¹ The \$630 million in local impact taxes does not include revenue collections for 2014.

The natural gas industry takes corporate citizenship very seriously. We have helped buy emergency response equipment, build a fire station, train first responders, loan electric generators, labor and chainsaws during a power outage caused by a natural disaster, and donate generously to conservation groups, school programs, community projects and service and charitable organizations.

If paying more than \$2 billion in taxes, plus more than \$630 million in local impact taxes that support local and state government programs, financially supporting a state regulatory oversight program through higher fees, saving state and local governments and school districts millions on their energy bills, help people saving for their retirement and engaging in philanthropic activities isn't doing one's part, then we don't know what the meaning of "fair share" is. Why would Pennsylvania risk throwing this all away with instituting additional taxes on energy?

This debate isn't about paying one's fair share or doing one's part; it's about targeting a single industry to pay MORE. In fact, some refer to additional energy taxes and the industry as "a trophy", "a prize" and "low hanging fruit". But, the short-sighted goal of instituting additional energy taxes misses the point of what's at stake. It ignores economic reality, puts good family sustaining jobs in peril, and jeopardizes the future prosperity of Pennsylvania.

There is often a failure to understand fundamental – yet crucial – economic facts. Capital is movable and will go where the return on investment has the greatest potential. Economic facts remain consistent: capital is movable and seeks a return on investment. It is a complete fallacy to say that "the gas is here and companies are not going to leave." The fact is that some companies have already slowed their activities to the lowest possible levels.

Resources are not unlimited. The fact is that within any given company, there is a finite amount of capital for investment. And, each project that requires a capital expenditure has to compete for those investment resources against other opportunities that a company might have. In this case, capital investment in Pennsylvania is competing against other shale plays and other states with highly developed infrastructure and favorable fiscal policies.

The cost to drill a shale-gas well in Pennsylvania is already one of the highest in the nation, averaging \$537 per foot of well drilled, compared to just \$379 per foot in Texas.² This cost varies across states for a variety of reasons, such as the depth of the well drilled, or the geology of the basin being explored and developed, or the tax and regulatory regime in place. Policymakers need to consider the overall competitive forces when planning to make changes in energy policy. In this strained low-price environment and with Pennsylvania's already high drilling costs, raising taxes on producers would stifle economic growth and the tax revenue generated from it.

² "Joint Association Survey on 2013 Drilling Costs," sponsored by API, IPAA, and Mid-Continent Oil & Gas Association, April 2015.

An additional energy tax makes investment decisions more difficult and places Pennsylvania further at a competitive disadvantage. No matter how hard the proponents try to spin that the industry can “afford” a severance tax, the economic reality cannot be denied. Capital is movable and seeks the greatest return on investment.

It has been asserted that the severance tax is an exportable tax which will largely be paid for by people in other states as they purchase Pennsylvania’s natural gas. This is simply not the case. Natural gas is sold in a competitive market where the price reflects the sum total of natural gas supplies (from other states as well as Pennsylvania) and natural gas demand. **Raising the severance tax on Pennsylvania producers would increase their cost of producing natural gas, but no one else’s.** This, in turn, would reduce the level of natural gas development activity in Pennsylvania as well as the amount producers would be willing to pay owners of shale deposits for natural gas leases.

API recently commissioned a study to analyze the economic impact to the commonwealth in the event a severance tax was imposed. Specifically, the study analyzed Governor Wolf’s severance tax proposal. If we institute additional energy taxes, the study confirms that the picture looks grim for the commonwealth. **The study found that by 2020, for every net \$1 the commonwealth may gain from imposing a severance tax, the gross state product of Pennsylvania’s economy is set back by over \$4 (approximately \$2 billion per year in GSP vs. approximately \$0.5 billion per year in severance taxes).**

Key findings from the study further reveal:

- The proposed severance tax is estimated to reduce the number of wells drilled by 1,364 from 2016 to 2025 leading to a cumulative drilling investment loss of \$11.5 billion. With fewer wells drilled cumulative losses in natural gas and liquids production amount to \$11.2 billion over the same period.
- These investment and production losses lead to cumulative losses in value added or gross state product to the Pennsylvania economy of over \$20 billion from 2016 to 2025.
- The proposed severance tax is estimated to reduce supported employment in the state by nearly 18,000 by 2025 relative to projected levels without the tax. The relatively high paying construction and oil and gas sectors would be hardest hit.
- The severance tax revenues will be offset by the elimination of the impact fee and lower sales and income tax receipts from reduced economic activity resulting from the severance tax. Net revenue to the state of Pennsylvania in 2016 is estimated to be \$515 million, 1/3 less than the \$765 million projected by the Governor’s office. This study projects that net revenue to the state is estimated at \$492 million in 2020 and \$565 million in 2025, significantly less than the \$1 billion per year estimated by the tax

supporters.

- The proposed severance tax is estimated to reduce Pennsylvania's natural gas output by over 900 million cubic feet per day by as early 2021. The cumulative loss in natural gas production is 2.86 trillion cubic feet from 2016 to 2025.

We respectfully request that you reject attempts to enact additional energy taxes. An additional tax on energy is a false choice. When one really looks at what's at stake here, why would we risk driving investment away by an industry that has contributed so much to the commonwealth, provides good family sustaining jobs and has the potential to help make Pennsylvania's future brighter.

Thank you again for your consideration.