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Independent Oil and Gas Association of Pennsylvania Issues Statement on Severance Tax

The Independent Oil and Gas Association of Pennsylvania (IOGA) released the following statement today in response to the Governor of Pennsylvania's proposal in his 2009-2010 budget address to impose a severance tax on the oil and gas industry.

"The Pennsylvania Economy League reported in an October 2008 study that over 26,500 Pennsylvanians owe their jobs to the Commonwealth's traditional oil and gas industry. Nearly \$1 billion dollars are paid to these employees and for each of these dollars, \$1.88 in additional spending is generated. \$842 million dollars in proprietors' income for small business and self-employment are also generated. Rents, royalties and dividends contribute another \$1.9 billion in investor and property owner income.

"Although Pennsylvania has been the third most active drilling state in the U.S. over the last five years, the Commonwealth ranks a distant fifteenth in production among states. The conventional wells in Pennsylvania are low-yielding, marginally economic wells. Only with careful cost control and minimal operating expense can these wells attract any investment. The average gas well in Pennsylvania yields a profit averaging fifteen percent of investment, which is net of operating expense and royalties. A five percent severance tax on gross production would amount to a full one-third income tax of each well's average cash flow, and is in addition to other taxes already imposed on the industry. No other industry in Pennsylvania will be asked for such a sacrifice. No other extraction industry faces the same challenge. No industry can survive such a burden, even in good economic times.

"Royalty owners will be forced to share the same pain, effectively raising their state income taxes on this revenue stream from 3.07% to over 8%, which is in addition to their federal income taxes on this same production. Many farmers in Pennsylvania find that their royalty check is the difference between keeping or losing the family farm.

"Natural gas prices have declined drastically in the last year, yielding profits less than half those of just a year ago. Leasing costs, service company costs and the cost of regulatory burdens have increased from one year ago as a result of land acquisition and regulatory concerns fueled by the hype surrounding the potential of Marcellus Shale development in the Commonwealth.

"Although we all have high hopes for the success of the Marcellus Shale development, the industry is still in its infancy. The new companies developing this resource are faced with huge regulatory costs, huge infrastructure costs, and competition for capital from the other shale producing regions in the nation. Few doubt the huge economic benefit this industry will bring to the state in the future, but adding a severance tax to the high cost burden already facing this industry may derail this future economic train. We must also compete in gas price with other states. Our goal is to create good jobs in PA, not to force the industry out of the Commonwealth because of its high tax burden.

"IOGA is a trade association representing the oil and gas industry in Pennsylvania. However we oppose this tax not only for the producers, but for the thousands of Pennsylvanians who depend on our industry for jobs and royalties. This tax will destroy the existing conventional well development in Pennsylvania and severely hamper and delay the exploration and development of Marcellus Shale in the Commonwealth. We cannot and will not support any severance tax in Pennsylvania."

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